education

Department:
Education
PROVINCE OF KWAZULU-NATAL

CURRICULUM GRADE 10 -12 DIRECTORATE

NCS (CAPS)

LEARNER SUPPORT DOCUMENT

GRADE 12

ACCOUNTING

STEP AHEAD PROGRAMME

2021

PREFACE

This support document serves to assist Accounting learners on how to deal with curriculum gaps and learning losses as a result of the impact of COVID-19 in 2020. It also captures the challenging topics in the Grade 12 work. Activities should serve as a guide on how various topics are assessed at different cognitive levels and also preparing learners for informal and formal tasks in Accounting. It will cover the following topics:

A: LEDGER ACCOUNTS AND INCOME STATEMENT (STATEMENT OF COMPREHENSIVE INCOME)

BASELINE ACTIVITY A 1

Ledger Accounts unique to Companies. Place a ✓ in the appropriate box/boxes.

	NAME OF LEDGER ACCOUNT	BALANCE SHEET SECTION	NOMINAL ACCOUNT SECTION	ASSET	EQUITY	LIABILITY
1.	ORDINARY SHARE CAPITAL					
2.	RETAINED INCOME					
3.	SARS (INCOME TAX)					
4.	SHAREHOLDERS FOR DIVIDENDS					
5.	ORDINARY SHARE DIVIDENDS					
6.	INCOME TAX					
7.	APPROPRIATION ACCOUNT					

ACTIVITY A2

GENERAL LEDGER ACCOUNTS

KwaZulu Ltd is a public company with an authorised share capital of 1 500 000 ordinary shares. The financial year ends on 31 December each year.

REQUIRED:

Prepare the following accounts in the General Ledger on 31 December 2020:

2.1 Ordinary Share Capital,

2.2 Retained Income,

2.3 SARS (Income Tax)

2.4 Shareholders for Dividends

2.5 Income Tax

2.6 Dividends on Ordinary Shares

2.7 Appropriation Account.

INFORMATION:

A. **Balances on 1 January 2020:**

- Ordinary Share Capital R1 050 000 (500 000 shares)
- Retained Income R420 000

B. **Transactions for 2020:**

January 2020:

05 The company invited the public to purchase 400 000 ordinary shares.

31 The money for the shares at R3,00 per share was received and deposited.

June 2020:

30 Provisional income tax of R30 000 was paid by cheque.

An interim dividend of 13 cents per share was paid to shareholders on the register.

September 2020:

30 The company repurchased 50 000 from disgruntled shareholders at R3,60 per share.

December 2020:

01 A second provisional tax of R70 000 was paid.

31 A final dividend of 17 cents per share was declared. Only shares on the share register qualify for final dividends.

The net profit before tax amounted to R508 000.

Income tax is calculated at 28% of the net profit.

ACTIVITY A2: GENERAL LEDGER ACCOUNTS

GENERAL LEDGER OF KWAZULU LTD

ORDINARY SHARE CAPITAL

RETAINED INCOME

SARS (INCOME TAX)

SHAREHOLDERS FOR DIVIDENDS

INCOME TAX

ORDINARY SHARE DIVIDENDS

APPROPRIATION

ACTIVITY A3

Analyse the following transactions according to the example provided. Show the effect on the Accounting equation only for the four transactions on 11 June 2019, 30 Aug 2019, 1 Sept 2019 and 27 Feb 2020.

EXAMPLE: Audit fees of R20 000 are owed at the year-end.

	GENERAL LEDGER			EFFECT ON ACCOUNTING EQUATION		
	Account debited	Account credited	Amount	Assets	Owners' equity	Liabilities
E.g.	Audit fees	Expenses accrued	R20 000	0	-	+

INFORMATION

1. The following balances appeared in the ledger at the beginning and end of the financial period:

	1 March 2019	28 Feb 2020
Ordinary share capital (R5 each)	R1 500 000	?
Retained income	R148 000	R58 400
SARS (income tax)	R49 500 (Cr)	R8 200 (Dr)
Shareholders for dividends	R126 000	?

T

RANSACTIONS

10 June 2019	Paid the amount owing to SARS in respect of the previous financial year.
11 June 2019	The amount owing in respect of the financial year to Shareholders (for dividends) was paid.
30 Aug 2019	A provision tax payment of R120 000 was paid for the 2020 financial year.
31 Aug 2019	An interim dividend of 84 cents per share (the new shares issued on 1 September 2015 do not qualify for these interim dividends).
1 Sept. 2019	The directors have been granted permission by the shareholders to issue additional shares as and when required. The directors decided to issue 50 000 new shares R8 each during the year. The transactions were handled by Quality Bank and the relevant amount was received from Quality Bank on 1 September 2019.
27 Feb 2020	The directors recommended a final dividend of 140 cents per share.
28 Feb 2020	The income tax for the year was recorded.

ACTIVITY A3

	GENERAL LEDGER			EFFECT ON ACCOUNTING EQUATION		
	Account debited	Account credited	Amount	Assets	Owners' equity	Liabilities
Eg.	Audit fees	Expenses payable	R20 000	0	-	+
10 June 2019						
11 June 2019						
30 Aug 2019						
31 Aug 2019						
1 Sept 2019						
27 Feb 2020						
28 Feb 2020						

ACTIVITY A4

4.1 MATCHING ITEMS –CONCEPTS

Concepts are listed in COLUMN A and explanations are listed in COLUMN B. Choose an explanation from COLUMN B that matches a concept in COLUMN A.

Write only the letter (A – J) next to the question number

COLUMN A		COLUMN B		Answer
4.1.1	Buying-back of shares	A	Unit of ownership in a company	
4.1.2	Income Tax	B	The business is liable for its own debts and in case of insolvency the owners are limited to the amount they invested.	
4.1.3	Provisional income tax	C	Done to reduce the number of shares on the share market so as to increase the value of shares still available	
4.1.4	Limited liability	D	The before net profit tax that a company produces during a specific period payable to SARS	
4.1.5	Separation of ownership	E	A distribution of a portion of a company's earnings declared by the board of directors, to its shareholders	
4.1.6	Memorandum of Incorporation	F	Payment made to SARS in order to meet their tax liability in two payments before the final assessment is received	
4.1.7	Issue Share Price	G	a document that sets out the rights and responsibilities of shareholders, directors and others within a company	
4.1.8	Dividends	H	The price at which a company's shares are offered to the market for the first time.	
4.1.9	Shares	I	Is a separate legal entity the owners of the business do not have to manage the business and running of the business	

ACTIVITY A 5

DUBE COMPUTERS PTY LTD

You are provided with information relating to Dube Computers (Pty) Ltd for the year ended 30 June 2020.

REQUIRED:

5.1 Refer to adjustments and additional information 5. Calculate the Profit/Loss on disposal of the office computers sold on 31 March 2020.

5.2 Prepare the Income Statement for the year ended 30 June 2020.

INFORMATION:

(a) Items extracted from the Pre-Adjustment Trial Balance on 30 June 2020.

Balance Sheet accounts section	**Debit**	**Credit**
Land and buildings	930 000	
Equipment	510 100	
Accumulated depreciation on equipment		231 000
Trading stock	281 000	
Loan from Light Bank (13% p.a.)		300 000
SARS (provisional tax)	194 000	
Debtors control	32 000	
Provision for bad debts		2 000
Nominal accounts section		
Sales		3 700 000
Cost of sales	2 100 000	
Staff costs(salaries, wages and commission)	180 000	
Directors fees	120 000	
Commission income		36 000
Interest on loan	29 000	
Sundry expenses(including packing materials)	45 000	
Asset disposal		7 000

(b) Adjustments and additional information:

1. Commission income R2 350 is owed to the business.
2. Packing materials of R1 700 are on hand at the end of the year. Packing materials are included in sundry expenses.
3. One of the two directors has been paid his fees for 6 months. The fees were increased by 10% half-way through the financial year. Provide for fees owing. Both directors earn the same annual fees.
4. Interest at 13% is owed on a loan. This interest is **not** capitalised. The loan was taken out several years ago. A payment of R100 000 was made on 31 December 2019. This has been properly recorded.
5. **Equipment comprises:**

	Cost on 30 June 2020	Accumulated depreciation on 1 July 2019	Depreciation rate
General equipment	418 000	183 000	20% on diminishing balance method
Office computers	92 100	48 000	33 1/3 on cost
	R510 100	**R231 000**	

   Note: One of the office computers was sold on 31 March 2020. The selling price was credited to the Asset Disposal account but no other entry has been made. The cost price of this computer was R18 600 and the accumulated depreciation at the beginning of the year R9 400.

   Depreciation is to be written off at rates reflected above.

6. The physical stock count revealed stock to an amount R247 940.

   Note: This amount was calculated before taking into account the donation of two computers Zakhe High School which cost R10 500 each. No entry has been made for these donations.

7. The income tax assessment for the year reflected that the business owed SARS an amount of R37 000 on 30 June 2020.

ACTIVITY A5: ANSWER SHEET

5.1 Calculate the profit/loss on the disposal of the office computers sold on March 2020.

5.2 Dube computers (Pty) Ltd

Income statement for the year ended 30 June 2020

Sales	3 700 000
Cost of sales	(2 100 000)
Gross profit	1 600 000
Other income	
Operating expenses	
Staff costs	180 000

ACTIVITY A6

MQOMBOYI LTD

The information relates to the financial year ended 31 March 2019.

REQUIRED:

6.1 Complete the statement of comprehensive income (income statement for the year ended 31 March 2019.

6.2 Complete the following notes to the Balance Sheet

- Fixed/Tangible Asset Note
- Ordinary Share capital

INFORMATION:

Figures extracted from the Pre-Adjustment Trial Balances on 31 March:

	2020	2019
	R	R
BALANCE SHEET SECTION		
Ordinary share capital	9 300 000	4 800 000
Mortgage loan: C-Light Bank	1 430 200	1 658 000
Land and buildings	12 500 000	12 500 000
Vehicles	1 377 000	750 000
Accumulated depreciation on vehicles	?	475 000
Equipment	?	398 000
Accumulated depreciation on equipment	?	117 500
Provision for bad debts	?	30 100
Trading stock	364 200	
Debtors control	578 000	
NOMINAL ACCOUNTS SECTION		
Sales	10 563 280	
Cost of sales	6 236 000	
Rent income	99 500	
Directors fees	1 262 100	
Water and electricity	218 000	
Telephone	75 600	
Audit fees	104 000	
Sundry expenses	61 001	
Salaries and wages	1 280 000	
Employers contribution(medical, pension and UIF)	316 000	
Bad debts	22 300	
Consumable stores	53 200	
Interest income	?	
Insurance	79 500	
Depreciation (on equipment sold)	1 750	
Interest on loan	?	
Bad debts recovered	6 000	
Ordinary share dividends (interim)	375 000	

Adjustments and additional information:

A. A credit invoice for R36 720 (after deducting a 10% trade discount) issued on 31 March 2020, was not recorded. Goods are marked up at 70% on cost.

B. The physical stock count 31 March 2020 revealed the following on hand:
- Trading stock, R334 500
- Consumable stores, R3 400

C. Debtor Y Kubheka was declared insolvent. His estate paid R2 000, which was 20% of his debt. The difference must be written off as bad debts.

D. R1 800 was received from a debtor Mavela whose debt had been previously written off. The bookkeeper incorrectly credited the amount to the Debtors Control Account. Correct the error.

E. Adjust the provision for bad debts to R28 500.

F. Insurance includes an annual premium of R51 000 paid for the period of 1 January 2020 to 31 December 2020

G. An employee was left out of the Salaries Journal for March 2020. The following details appeared:
- Net salary of the employee, R9 100
- The deductions by the employer totalled 30% of the gross salary.
- Employers contribution were R2 200.

H. Interest on loan is capitalised. A fixed monthly repayment (including interest of R25 400 was paid for the financial year.

I. Fixed assets and depreciation:

(i) Vehicles:
- Details for the three vehicles are as follows:

	Cost price	Accumulated depreciation 31 March 2019	Date purchased
1	R350 000	R315 000	1 October 2014
2	R400 000	R160 000	1 April 2017
3	R627 000		30 November 2019

- Vehicles are depreciated at 20% p.a. on cost.

(ii) Equipment:
- Equipment was sold for R9 600 cash on 31 August 2019. Only the following entries in respect of this sale were processed:

Cost price	28 000
Accumulated depreciation at the date of disposal	21 500
Depreciation for the current financial year	1 750

- Depreciation on the remaining equipment is calculated at R92 500 after taking all of the above into account.

J. Interest income is the missing figure in the income statement.

K. Income tax is calculated at 28% of the net profit. The net profit before tax was R691 000.

L. Shares and dividends:
- The company has an authorised share capital of 8 000 000 shares.
- The company had 1 200 000 shares in issue on 1 April 2019.
- 150 000 shares were repurchased on 30 November 2019. EFT payments totalling R825 were made for these shares.
- 850 000 additional shares were issued on 30 September 2019.

ACTIVITY A6 ANSWERBOOK

6.1 MQOMBOYI LTD

6.1.1 Statement of Comprehensive income (income statement) for the year ended 31 March 2020.

Sales	
Cost of sales	
Gross profit	
Operating income	
Rent income	99 500
Gross operating income	
Operating expenses	
Directors fees	1 262 100
Water and electricity	218 000
Telephone	75 600
Audit fees	104 000
Sundry expenses	61 001
Operating profit	
Interest income	
Profit before interest expense	
Interest expense	
Net profit before	691 000
Income tax	
Net profit after tax	

6.2 NOTES TO THE BALANCE SHEET

Fixed/Tangible Assets

	Land and buildings	Vehicles	Equipment
Carrying value at beginning of the financial year	12 500 000	275 000	280 500
Cost	12 500 000	750 000	398 000
Accumulated depreciation	-	(475 000)	(117 500)
Movements			
Additions at cost	-		-
Disposals at carrying value	-	-	
Depreciation	-		(94 250)
Carrying value at the end of the financial year	12 500 000		
Cost	12 500 000	1 377 000	
Accumulated depreciation	-		

6.3 Ordinary share capital

Authorised:	
8 000 000 shares	
Issued:	
1 200 000 shares in issue at beginning	

ACTIVITY A7

QUESTION

You are provided with information relating to Khanya Limited for the financial year ended 31 December 2020. Khanya Limited buys and sells tables and chairs.

REQUIRED

a. Complete the income statement for the year ended 31 December 2020.
b. Complete the Fixed asset note (Vehicles only) to the Balance Sheet on 31 December 2020.
c. Prepare the note for Trade and Other Payables on 31 December 2020.

INFORMATION

EXTRACT FROM THE PRE-ADJUSTMENTS TRIAL BALANCE ON 31 DECEMBER 2020.

Balance sheet accounts section	**R**
Ordinary share capital	3 000 000
Retained income (1 January 2020)	314 000
Loan: Lwandle Bank	270 400
Vehicle	407 000
Accumulated depreciation on vehicle	147 400
Equipment	616 000
Accumulated depreciation on equipment	341 000
Debtors control	63 190
Creditors control	43 400
Provision for bad debts	3 450
Trading stock	138 000
SARS: income tax (Dr)	224 000
SARS: PAYE	14 100
Unemployment insurance fund (UIF)	1 300
Pension fund	14 500
Nominal accounts section	
Sales	4 220 700
Cost of sales	1 100 720
Profit on sale of asset	12 500
Sundry expenses	?
Bank charges	6 000
Audit fees	45 000
Directors fees	432 000
Salaries and wages	940 000
Employers contribution (UIF and pension fund)	103 400
Rent expense	63 360
Interest on current account	680
Bad debts	2 790
Depreciation (vehicles sold)	13 750
Ordinary share dividends (interim)	96 000

ADJUSTMENTS AND ADDITIONAL INFORMATION

1. On 30 December 2020 L.Msomi a debtor, returned damaged tables. The selling price was R850 and the mark-up was 25% on cost price. The goods were immediately sent to the supplier, who issued a credit note. No entries have entered in the books.
2. The insolvent estate of S.Sosibo paid 40 cents in the rand and transferred R360 directly into the bank account of Khanya Ltd on 15 December 2020. This has been recorded. The rest of her outstanding balance must be written off and the provision for bad debts must be adjusted to R3 090.
3. Physical stock at year end revealed stock of tables on hand valued at R82 000 and chairs to R47 700
4. The company has paid their TWO directors up to 30 June 2020. Both earn the same fees. A THIRD director was appointed on 1 October 2020 on the same monthly rate as the other two directors. His director's fees have not been paid yet. Provide for the total outstanding directors fees.
5. An employee was left of the Salaries Journal for December 2020. The details on his payslip were as follows:

Gross salary	Deductions			Contribution		Net salary
	PAYE	UIF	PENSION FUND	UIF	Pension fund	
?	1 600	90	630	90	?	R6 680

The employees contribute 7% of their gross salary to the pension fund and the employer 10%. The UIF deduction is 1% of their gross salary.

6. Interest on loan was capitalised but not yet been recorded. The loan statement received from Lwandle Bank on 31 December 2020 reflects the following:

LWANDLE BANK: loan statement on 31 December 2020	
Balance on 1 January 2020	R320 800
Interest capitalised	?
Repayments to Lwandle Bank during the year	R50 400
Balance on 31 December 2020	R310 000

7. Rent expense was increased by 10% on 1 December 2020. The rent for January 2021 has already been paid.
8. On 31 October 2020 an old vehicle was sold for R48 250 in cash. All details relating to the asset sold have been correctly recorded in the books. The details from Fixed Asset Register are as follows:
   - Cost price, R82 500
   - Accumulated depreciation at date of sale, R46 750

   Provide for depreciation as follows:

   - On equipment, at 10% p.a. on diminishing-balance method. Taking into account that new equipment was bought for R90 000 on 1 September 2020. This transaction was properly entered in the books.
   - The depreciation on the remaining vehicles amounts to R81 400 on 31 December 2020.
9. 300 000 new shares were issued and recorded on 1 December 2020. These shares do not qualify for dividends in 2020. Final dividends of 7c per share were declared by the directors at year end.
10. Income tax for the year amounts to R240 000. This is 30% of the net profit before tax.
11. **Note**: that the sundry expenses amount is the missing figure in the income statement.

ACTIVITY A7

7.1 STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2020

Sales	
Cost of sales	
Gross profit	
Other income	
Profit on sale of asset	12 500
Gross operating profit	
Operating expenses	(2 293 750)
Sundry	
Bank charges	6 000
Audit fees	45 000
Operating profit	
Interest income	680
Profit before interest expense	
Net profit before tax	
Income tax for the year	(240 000)
Net profit after tax	

7.2 Fixed Asset Note on 31 December 2020

FIXED/TANGIBLE ASSETS	VEHICLES
Carrying value-1 January 2020	309 100
Cost	489 500
Accumulated depreciation	(180 400)
Movements	
Additions at cost	0
Depreciation	(95 150)
Carrying value-31 December 2020	
Cost	
Accumulated depreciation	(228 800)

7.3 Trade and other payables

Creditors	
Shareholders for dividends	
SARS:PAYE	

B: BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)

THINGS TO REMEMBER

- Balance sheet definition and purpose
- Format of the Balance Sheet with emphasis on by highlighting the Shareholders Equity, SARS (income tax) and final Dividends
- Calculation of the following:
  - current portion of the loan with non-current liabilities
  - SARS (income tax) – preferable by drawing a T-account
  - Shareholders for Dividend (final dividend) – the key is whether the buyback are entitled for dividend or not. If entitled, use the number of shares before buyback. If not entitled use the number of shares at the end.
  - Current portion of the loan:
- **Interest capitalised:**

Interest capitalised = loan @end – loan @beg + repayments or loan @beg – repayments – loan @end

Short-term loan = total repayments – interest capitalised

If this amount is given on the information ignore this calculation.

Loan = (loan @end – short-term loan)

- **Loan repaid monthly and was taken before the current accounting period:**

Short-term loan = Loan balance ÷ months remaining × 12 months

Loan = (loan balance – short-term loan)

✓ Reversal financial indicators

Given Indicator	Used to calculate	Reversal calculation
Current ratio	Current assets	Current liabilities X current ratio
Current ratio	Current liabilities	Current assets ÷ current ratio
Acid test ratio	Inventories	(Current ratio – acid-test ratio) x current liabilities
Debt/equity ratio	Shareholders' equity	Loan ÷ debt/equity ratio
Debt/equity ratio	Loan	Shareholders' equity X debt/equity ratio
Net asset value	Shareholders' equity	NAV ratio X issued shares ÷ 100

ACTIVITIES

ACTIVITY B1

MODISE LTD

The information below relates to Modise Ltd. The financial year ended on 28 February 2020.

REQUIRED:

1.1 Prepare the Retained Income Note to the Balance Sheet on 28 February 2020. (12)

1.2 Complete the Balance Sheet on 28 February 2020. Show ALL workings. (38)

1.3 The directors want to give R500 000 to a local school. Give TWO reasons why companies take such decisions. (4)

A. INFORMATION:

Extract of balances on 28 February 2020:

	R
Ordinary share capital	13 650 000
Retained income (1 March 2019)	567 000
Fixed assets at carrying value	?
Fixed deposit: Peoples Bank	?
Loan from director	630 000
Debtors' control	554 000
Provision for bad debts (1 March 2019)	31 300
Bank (favourable)	?
Trading stock	1 015 000
Consumable stores on hand	25 000
Creditors' control	?
Expenses prepaid	19 240
SARS: Income tax (provisional tax payments)	900 000

B. Share capital:

- The authorised share capital of Modise Ltd is 6 500 000 ordinary **shares**.
- On 20 February 2020, 250 000 shares were repurchased at 25 cents above the average share price. This has been recorded.
- On 28 February 2020, the ordinary share capital comprised 4 550 000 ordinary shares.

C. Dividends:

- Interim dividends of R672 000 were paid on 28 August 2019.
- A final dividend of 36 cents per share was declared on 28 February 2020. All shares (including the shares repurchased on 20 February 2020) qualify for final dividends.

D. Net profit before tax:

- After taking all relevant information into account, the net profit before tax was accurately calculated to be R3 400 000.
- Income tax at 27% of the net profit must be taken into account.

E. Fixed deposit:

The interest on the fixed deposit was R48 000. The fixed deposit was invested on 1 May 2019 at 8% p.a.

F. Loan from director:

- The interest-free loan was received on 1 September 2017.
- This loan is to be repaid over six years in equal monthly instalments. The first repayment was made on 30 September 2017. All payments have been made to date.

G. Provision for bad debts:

The provision for bad debts must be adjusted to 6% of the outstanding debtors.

The current ratio calculated after all adjustments was 1,5 : 1.

ACTIVITY B1

ANSWER BOOK

MODISE LTD

1.1 RETAINED INCOME NOTE

Balance at beginning of year	**R567 000**
Ordinary share dividends	
Balance at end of year	

12

1.2 MODISE LTD

BALANCE SHEET ON 28 FEBRUARY 2020

ASSETS	
Non-current assets	
Fixed assets	
Current assets	
Inventories	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
Ordinary shareholders' equity	
Ordinary share capital	13 650 000
Non-current liabilities	
Current liabilities	2 600 000
Trade and other payables	
Shareholders for dividends	
SARS: Income tax	
TOTAL EQUITY AND LIABILITIES	

ACTIVITY B2

COOPER LTD

You are provided with information for the financial year ended 30 June 2020.

REQUIRED:

2.1 Refer to **Information B**.
Calculate the missing amounts denoted by **(a)** to **(c)** in The Fixed Asset Note for vehicles. (13)

2.2 Complete the Balance Sheet (Statement of Financial Position) on 30 June 2020. Show ALL workings. (36)

INFORMATION:

A. Extract from the books on 30 June 2020:

Balance sheet accounts section	**R**
Ordinary share capital	3 746 500
Retained income	?
Mortgage loan: Gaga Bank	752 000
Fixed assets at carrying value (balancing figure)	?
Trading stock	450 000
Debtors control	?
Provision for bad debts	17 200
Bank (favourable)	510 640
Petty cash	2 400
Fixed deposit: Shallow Bank (5,5% p.a.)	650 000
SARS (Income tax)	446 500
Creditors control	661 600
Nominal accounts section	
Rent income	176 880
Directors' fees	518 000
Dividends on ordinary shares (interim)	404 800

B. Extract from the Note for Fixed assets

	VEHICLES
Carrying value – Beginning	**(a)**
Cost	285 000
Accumulated depreciation	(91 200)
Movements	
Additions at cost	180 000
Disposals at carrying value	**(b)**
Depreciation	**(c)**
Carrying value - End	
Cost	
Accumulated depreciation	

Additional information in respect of fixed assets:

- Fixed assets consist of Land and buildings, Vehicles and Equipment.
- On 1 July 2019 Cooper Ltd had the following vehicles:
  Two delivery vehicles purchased on 1 October 2017 at R142 500 each.
- Depreciation on vehicles is calculated at 20% per annum on the diminishing balance method.
- One of the vehicles was written off in an accident on 31 March 2020. The insurance company, BST Insure, agreed to pay out R79 800 on 31 July 2020.
- Cooper Ltd replaced the delivery vehicle written off with a new vehicle purchased on 1 June 2020 for R180 000. This was correctly recorded.

C. Share capital and dividends

- 80% of the 1 000 000 authorised shares were in issue on 30 June 2020.
- The directors declared a final dividend of 75 cents per share on 30 June 2020.

D. Trading stock and consumable stores on hand

- An invoice issued to a debtor has not been recorded in full. Obsolete goods were sold for R4 000 which is 20% below cost. The selling price was recorded correctly but not the cost price.
- Consumable stores on hand amounts to 15 300 on 30 June 2020.

E. Provision for bad debts has already been adjusted to 4% of the debtors of 2020.

F. Loan from Gaga Bank

R300 000 of the loan will be repaid during the next financial year.

G. The following adjustments have not been taken into account:

- The tenant has paid rent until 31 July 2020. The rent was increased by R1 320 from 1 April 2020.
- The two directors earn the same monthly fees. Two month's fees are still outstanding to both the directors.

H. After the actual tax was calculated on the corrected net profit for the year, it was found that the provisional tax paid was R23 500 less than the actual tax.

I. The NAV per share on 30 June 2020 amounts to 636 cents per share after all adjustments and information were taken into account.

ACTIVITY B2
ANSWER BOOK

2.1 FIXED ASSETS

(a)		
(b)		
(c)		

13

2.2 BALANCE SHEET ON 30 JUNE 2020

ASSETS	
NON-CURRENT ASSETS	
Fixed assets	
CURRENT ASSETS	
TOTAL ASSETS	
EQUITY AND LIABILITIES	
ORDINARY SHAREHOLDERS' EQUITY	
Ordinary share capital	3 746 500
NON-CURRENT LIABILITIES	
CURRENT LIABILITIES	
Trade and other payables	
TOTAL EQUITY AND LIABILITIES	

36

ACTIVITY B3

WESTVILLE LTD

The following information relates to Westville Ltd. The financial year ended 28 February 2020.

REQUIRED:

3.1. Calculate the correct Net Profit after tax for the financial year ended 28 February 2020. (15)

3.2. Prepare the following notes to the Balance Sheet on 28 February 2019:

- Trade and other receivables (9)
- Retained income (12)

3.3. Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2020. Show all workings (26)

INFORMATION:

A. The following items appeared in the Pre-Adjustment Trial Balance on 28 February 2020:

Ordinary share capital (180 000 shares) 28 February 2020	**R** 909 000
Retained income (4 December 2019)	130 000
Loan: M.G.M Bank	1 140 000
Fixed asset at carrying value	?
Fixed deposit	700 000
SARS: Income Tax (Provisional tax payment) (Dr)	267 000
Creditors control	43 000
Debtors control	44 800
Provision for bad debts	1 700
Trading stock	92 400
Consumable stores on hand (Packing material)	12 000
Bank overdraft	5 000
Petty cash	1 500

B. On 4 December 2019, the directors approved the repurchase of 20 000 shares at R9.00 each. This transaction was properly recorded.

C. The net profit before tax was incorrectly calculated as R1 449 200.

D. The following information **was not** taken into account:

(i) The director's fees of R625 000 was paid to two directors.
One of the two directors requested his fees for March 2020 be paid in February 2020, due to financial problems. All two directors receive the same monthly salary.

(ii) 80% of the packing materials were used during the financial year.

(iii) A debtor B. Modiba, who owes R1 200, has been declared insolvent his estate paid R480. This amount was received and not recorded. Write off the balance.

(iv) Rent income of R177 600 was received for 14 months. The rent was increased on 1 September 2019 by 10%.

(v) An interim dividend of R55 820 was paid on 1 September 2019, but was debited incorrectly to the salaries account.

(vi) A debtor with a credit balance of R1 000 on 28 February 2020 must be transferred to the Creditors ledger.

(vii) The loan statement from Paledi Bank reflected the following:

Balance at beginning of financial year	R 1 500 000
Repayment during the year (was recorded)	?
Interest capitalized	157 500
Balance at the end of financial year	1 140 000

The capital portion of the repayment of the loan for the next financial year remains the same as the current financial year.

(viii) Outstanding cheque on the Bank Reconciliation Statement on 28 February 2020 included:

Cheque No.	Date of Cheque	Name of payee	Reason for cheque	Amount
401	21 Feb 2020	BB Stores	On account	R3 000

(ix) Income tax amount to R255 000 and is equal to 30% of the net profit before tax.

(x) A final dividend of 75 cents per share was declared on 28 February 2020

ACTIVITY B3

ANSWER BOOK

3.1

3.2	**Trade and other receivables**	
	Trade debtors (44 800	
	Provision for bad debts	
	Net trade debtors	
	Prepaid expense	
	SARS Income tax (267 000	
	Retained income	
	Balance at the beginning (130 000	
	Buy-back of shares	
	Net profit after tax	
	Dividends	
	Paid /interim	
	Final /recommended	
	Balance at the end of the year	

ACTIVITY 3.3 Balance Sheet (Statement of Financial Position) on 28 February 2020.

Asset	
Non-current assets	
Current assets	
Total assets	
Equity and liabilities	
Shareholders' equity	
Ordinary share capital	**909 000**
Non-current liabilities	
Loan (1 140 000	
Current liabilities	
Trade and other payables **(43 000**	
Current portion of loan	
Shareholders for dividends	
Bank overdraft	
Total equity and liabilities	

26

ACTIVITY B4

4.1 CONCEPTS

Choose ONE concept from the list provided for each example below. Write only the concept next to the question number (3.1.1–3.1.4) in the ANSWER BOOK.

Non-current liability, current liability, current asset, financial asset

4.1.1 A fixed deposit that matures at the end of 3 years period. (1)

4.1.2 Consumable stores not used at the end of the financial year. (1)

4.1.3 Amount due to SARS in respect of income tax. (1)

4.1.4 Mortgage bond to finance the purchase of new property. (1)

4.2 ALWAYS LIMITED

The information below relates to Always Ltd. for the financial year ended 28 February 2020.

REQUIRED:

4.2.1 Prepare the Retained Income note on 28 February 2020. (10)

4.2.2 Prepare the Balance Sheet (Statement of Financial Position) on 28 February 2020. Show ALL workings. (35)

INFORMATION:

A. Balances extracted from the accounting records on 28 February 2020, unless otherwise stated.

	R
Ordinary share capital	?
Retained income (20 February 2020)	1 207 000
Loan: Direct Lenders (See Information E.)	?
Fixed assets at carrying value (1 March 2019)	5 495 500
Fixed deposit: Gonow Bank	?
Trading stock	1 361 000
Creditors' control	428 950
Debtors' control	556 000
Provision for bad debts (1 March 2019)	16 000
Bank (favourable)	?
Accrued expenses (expenses payable)	13 550
Prepaid expenses	8 800
SARS: Income tax (provisional tax payments)	506 000

B. Share capital:

- Always Ltd is authorised to sell 3 000 000 ordinary shares.
- 1 500 000 shares were in issue on 1 March 2019, the beginning of the financial year.
- 500 000 new shares were issued on 1 December 2019 at R3,00 per share.
- 100 000 shares were repurchased on 20 February 2020 from a shareholder who was relocating to another country at R110 000 above the average price. **This transaction was properly recorded.**

C. Net profit before tax:

- After taking into account all relevant information, the net profit before tax was accurately calculated to be R1 900 000.
- Income tax at the rate of 28% must still be brought into account.

D. Dividends:

- An interim dividend of R420 000 was paid on 28 August 2019.
- A final dividend of 44 cents per share was declared on 28 February 2020. All shares (including the shares repurchased on 20 February 2018) qualify for final dividends, which will be paid on 31 March 2020.

E. Loan: Direct Lenders

Balance on 1 March 2020	R 2 813 500
Repayment during the year (including interest)	259 500
Interest capitalised	223 500
Balance on 28 February 2020	2 777 500

- 20% of the loan balance will be paid in the next financial year.

F. Provision for bad debts:

The provision for bad debts is maintained at 5% of the outstanding debtors.

G. Packing material to the value of R15 900 was on hand on 28 February 2020.

H. Fixed assets and depreciation:

No fixed assets were purchased or sold during the financial year.

Depreciation for the financial year ended 28 February 2020 was R275 000.

I. After all adjustments were taken into account on 28 February 2020 the following ratio existed:

Debt-equity ratio	0,4: 1
Current ratio	2.1: 1

ACTIVITY B4

ANSWER BOOK

4.1 **CONCEPTS**

4.1.1	
4.1.2	
4.1.3	
4.1.4	

4

4.2.1

Balance at beginning of year	
Ordinary share dividends	
Interim	420 000
Final	
Balance at end of year	

4.2.2 Balance Sheet (Statement of Financial Position) on 28 February 2020.

Asset	
Non-current assets	
Current assets	
Total assets	
Equity and liabilities	
Shareholders' equity	
Ordinary share capital	**909 000**
Non-current liabilities	
Loan (1 140 000	
Current liabilities	
Trade and other payables **(43 000**	
Current portion of loan	
Shareholders for dividends	
Bank overdraft	
Total equity and liabilities	

35

C: CASH FLOW STATEMENT

THINGS TO REMEMBER

The purpose of the cash flow statement and each section.

The cash flow statement should report cash flows during the period under review by indicating the **change** in cash balances brought about by **operating**, **investing** and **financing activities**.

(Note: It is essential that learners understand the **FORMAT** and each component of the cash flow statement)

Operating Activities

Cash flow from **operations** is usually the most important source of cash for the business. Any firm which does not generate cash from trading operations is likely to experience difficulty meeting its obligations at some stage. (A firm cannot continually raise cash from loans and issuing shares and remain sustainable.)

Cash generated from **operating activities** consists of funds obtained from "running" the business which also includes collecting cash from debtors and paying creditors.

Components are:

Cash generated from Operations - may be inflow/(outflow)

Interest paid - (always outflow)

Taxation paid - (always outflow)

Dividends paid - (always outflow)

Investing activities

A firm must invest adequately in maintaining and/or expanding its operating capacity (i.e. buying new assets or replacing old ones) to ensure the ability to generate income. (Simply new assets need to be acquired and old assets need to be replaced for the business to remain competitive.)

Firms may acquire (buy) and dispose(sell)

- Land buildings,
- Equipment,
- Vehicles,
- Fixed deposits

Components of investing Activities:

Purchase of tangible assets - (always outflow)

Disposal of tangible of assets – always inflow

Increasing of fixed deposit - (always outflow)

Decreasing of fixed deposit – always inflow

Financing Activities

Cash obtained from financing activities shows whether "capital", long term funds to run the business, is being obtained from interest bearing debt (**loans)** or from the **equity**. i.e. Is money coming from shareholders or banks?

(Note: the buyback of shares must be thoroughly taught)

Components:

Proceeds from shares issued – always inflow

Repurchase of shares – (always outflow) involves the **total amount** paid from bank i.e. average price + excess paid above average price x number of shares

Loan raised - always inflow

Loan repaid - (always outflow)

Net Change in Cash and Cash Equivalents

The cash net change in cash and cash and cash equivalents can be calculated as the result of the following:

- cash from operating activities
- cash from investing activities
- cash from financing activities

OR

The difference in the balance of cash and cash equivalents at the beginning and the end of the financial year.

Note 1: Reconciliation between net profit before taxation and cash generated from operations:

Components:

Net profit before taxation

Adjustments in respect of:

Depreciation (add back)

Interest expense (add back)

Operating profit before change in working capital

Changes in working capital

(Increases)/decreases in: Inventories

(Increase)/decrease debtors

Increase/(decrease) in creditors

Cash generated from operations

Note to teacher: Ensure that learners are exposed to different methods of obtaining:

- the net profit before taxation
- Interest expense and interest paid always capitalised
- Debtors - including accrued income/prepaid expenses and excluding SARS income tax
- Creditors – include expenses accrued/deferred income exclude interest due; SARS income tax and shareholders' dividends.

ACTIVITY C1

1.1 Complete the CASH GENERATED FROM OPERATIONS NOTE on 28 February 2020.

1.2 Calculate the following amounts that will appear in the Cash Flow Statement on 28 February 2020:

- Dividends paid
- Tax paid

1.3 Prepare the CASH EFFECTS OF FINANCING ACTIVITIES section to the Cash Flow Statement for the year ended 28 February 2020.

A. INCOMPLETE FIXED ASSETS NOTE

	Land & Buildings	Vehicles	Equipment
Carrying value at the beginning of the year	**18 686 700**	**1 080 000**	**481 600**
Cost	**18 686 700**	**1 800 000**	**600 000**
Accumulated depreciation		**(720 000)**	**(118 400)**
Movements			
Additions (at cost)	*	*	*
Asset disposal	**(0)**	**(0)**	*
Depreciation	**(0)**		*
Carrying value at the end of the year	**24 120 300**	*	*
Cost	**24 120 300**	*	**700 000**
Accumulated depreciation	**(0)**	**(1 110 000)**	*

(a) Land and buildings

- Extensions to the buildings were done during the current financial year.

(b) Vehicles

- A new vehicle was bought on 1 December 2019.
- No vehicles were sold during the year.
- Depreciation is written off on vehicles at 20% p.a. on the cost price method.

(c) Equipment

- A photo-copier bought on 1 March 2018 for R200 000 was traded-in for an upgraded model on 28 February 2020. The accumulated depreciation on this photo-copier on the date of trade-in was R38 000.
- Depreciation on equipment is written off at 10% p.a. on the diminishing balance method.

B. SHARES AND DIVIDENDS

- Additional shares were issued on 30 August 2019.
- Shares were repurchased from certain shareholders at R9,00 per share during October 2019.
- An interim dividend was paid on 31 July 2019.
- A final dividend of 50 cents per share was declared on 28 February 2020. Only shareholders on the current share register are entitled to final dividends.

ACTIVITY C1 ANSWER SHEET

1.1

CASH GENERATED FROM OPERATIONS	
Gross operating profit before changes in working capital	**6 127 160**
CHANGES IN WORKING CAPITAL	
Change in inventory	**(170 100)**
Cash generated from operations	

1.2 Calculate the following amounts that will appear in the Cash Flow Statement on 28 February 2020:

1.3	**Dividends paid**
1.4	**Tax paid**

1.5

CASH FLOWS FROM FINANCING ACTIVITIES	

ACTIVITY C 2

You are provided with information relating to Jon-Jon Limited for the financial year ended 30 June 2020.

REQUIRED:

2.1 Calculate the following amounts for the Cash Flow Statement:

- Income tax paid
- Proceeds from sale of fixed assets

2.2 Complete the following sections of the Cash Flow Statement:

- Cash flow from financing activities
- Cash and cash equivalents

INFORMATION:

A Extract from Income Statement for the year ended 30 June 2020

Sales	R 5 678 800
Cost of sales	3 294 000
Gross profit	2 384 800
Depreciation	440 000
Interest on loan	309 600
Net profit before tax	529 200
Income tax	158 700
Net profit after tax	370 500

B Extract from Balance Sheet on 30 June

	2020	**2019**
	R	**R**
Ordinary share capital	2 809 500	2 328 000
Retained income	508 500	396 000
Fixed assets	6 278 200	4 699 200
Trading stock	180 080	390 000
Trade and other debtors	75 600	242 700
SARS Income tax	15 400 (Cr)	12 000 (Dr)
Cash and cash equivalents	52 800	39 600
Bank overdraft	-	79 500
Loan: ABSA	2 940 000	2 220 000
Trade and other creditors	175 280	258 000
Shareholders for dividends	138 000	102 000
Total current assets	**308 480**	**684 300**
Total current liabilities	**328 680**	**439 500**

ADDITIONAL INFORMATION:

(i) **Share capital:**

- The authorised share capital is 700 000 ordinary shares.
- 50 000 shares were repurchased from a dissatisfied shareholder at R1,00 above the average share price of R4,50 on 30 April 2020.
- Additional shares were issued during the year.
- There were 600 000 shares in issue at the end of the year.

(ii) **Fixed assets:**

- Fixed assets to the value of R2 599 000 were purchased.
- Old equipment were sold at carrying value (book value) during the financial year.

ACTIVITY C 2

2.1 **Calculate the missing amounts in the Cash Flow Statement.**

	Missing item	Calculations	Amount

2.2

CASH FLOW FROM FINANCING ACTIVITIES	

2.3 CASH AND CASH EQUIVALENTS

Net change in cash and cash equivalents	
Cash and cash equivalents at beginning of year	
Cash and cash equivalents at end of year	

ACTIVITY C 3

3.1 Complete the Cash Flow Statement for the year ended 30 June 2020.

3.2 The Cash Flow Statement reflects some important decisions taken by the directors. Apart from the dividends, identify TWO good decisions. Explain the effect of each decision on the company. Quote figures.

INFORMATION:

A. Extract from the Income Statement on 30 June 2020:

	(R)
Depreciation	61 000
Interest on loan	82 000
Net profit before tax	257 400
Income tax	75 600

B. Extract from the Balance Sheet on 30 June:

	2020	2019
	(R)	(R)
Fixed assets (at carrying value)	1 505 400	1 201 500
Financial assets	195 000	185 000
Shareholders' equity	7 683 200	4 495 400
Ordinary share capital	7 644 000	4 200 000
Retained income	39 200	295 400
Loan	400 000	560 000
SARS : income tax	Cr 12 500	Dr 8 000
Shareholders for dividends	174 000	210 000
Cash and cash equivalent	2 922 000	2 000
Bank overdraft	-	17 100

C. Shares:

- Authorised share capital is 2 000 000 ordinary shares.
- On 30 June 2019, 1 200 000 ordinary shares had been issued.
- On 1 January 2020, 40 000 shares were repurchased at R4.10
- On 30 June 2020, all shares that were un-issued as at 30 June 2019 were issued.

D. Dividends:

- Interim dividends of 20 cents per share was declared and paid on 31 December 2019.
- Final dividends was declared on 30 June 2020.

E. Fixed assets:

- An old vehicle was sold at its book (carrying) value of R23 500 during the financial year.
- Additional fixed assets were purchased during the financial year.

ACTIVITY C3

3.1

Cash Flow Statement for the year ended 30 June 2020	
Cash flow from operating activities	
Cash generated from operations	639 100
Interest paid	(82 000)
Cash flow from investing activities	
Cash flow from financing activities	
Net change in cash and cash equivalent	
Cash and cash equivalent at the beginning (2 000 – 17 100)	(15 100)
Cash and cash equivalent at the end	2 922 000

3.2

Apart from the dividends, identify TWO good decisions. Explain the effect of each decision on the company. Quote figures.

	Decision	Consequence
1		
2		

ACTIVITY C 4

4.1 Complete the Cash Flow Statement for the year ended 28 February 2020.
Some of the figures have already been entered for you.

4.2 The Cash Flow Statement reflects some important decisions that have been taken by the directors during the financial year.

4.3 List TWO of these decisions and explain why each of these decisions will have an important effect on the future results of the company. In each case, quote figures from the Cash Flow Statement to support your answer.

INFORMATION:

A Extract from the Income Statement for the year ended 28 February 2020:

Cost of sales	R1 330 000
Depreciation	56 000
Interest expense	78 750
Net profit before tax	747 000
Income tax	224 000

B Extract from the Balance Sheet on 28 February:

	2020	2019
Ordinary shareholders' equity	1 953 500	768 000
Ordinary share capital	?	700 000
Retained Income	?	68 000
Long-term liabilities (15% p.a.)	125 000	940 000
Investment in fixed deposit	80 000	330 000
Inventories (only trading stock)	210 000	175 000
Debtors control	140 000	112 000
Creditors control	142 100	82 250
Bank (favourable balance)	?	2 000
Bank overdraft	-	922 000
Fixed/Tangible assets	1 928 600	2 937 600
SARS (Income tax)	**Dr** 45 000	**Cr** 17 500
Shareholders for dividends	320 000	175 000

C Share capital

The business has been registered with an authorised share capital of 800 000 ordinary shares.

1 March 2019	The issued share capital consisted of 175 000 ordinary shares.
30 November 2020	2 500 ordinary shares were repurchased from a retired shareholder at a total cost of R12 500.
31 January 2020	200 000 ordinary shares were issued at R5,50 per share.

D Dividends

The 2020 Cash Flow Statement reflected dividends paid of R280 000.

ACTIVITY C4

ZOLILE LIMITED

CASH FLOW STATEMENT FOR THE YEAR ENDED 28 FEBRUARY 2020

CASH FLOW FROM OPERATING ACTIVITIES	
Cash generated from operations	878 600
Interest paid	(78 750)
Dividends paid	(280 000)
CASH FLOW FROM INVESTING ACTIVITIES	
CASH FLOW FROM FINANCING ACTIVITIES	
Net change in cash and cash equivalents	
Cash and cash equivalents beginning of year	
Cash and cash equivalents at the end of year	

D. ANALYSIS AND INTERPRETATION OF FINANCIAL STATEMENTS (COMPANIES)

Ratios must be grouped into seven categories, namely: profitability, operating efficiency, liquidity, solvability, returns, risk and gearing and markets prospects

The following financial indicators are of importance in grade 12.

Profitability indicators

- Gross profit on turnover
- Gross profit on cost of sales

Operating efficiency indicators.

- Operating profit on sales
- Net profit on sales
- Operating expenses on sales

Liquidity ratios

- Current ratio
- Acid- Test ratio
- Debtors collection period
- Creditors payments period
- Stock turnover rate
- Stockholding period

Solvency ratios

- Solvency ratio

Returns/market indicators

- Return on shareholders' equity
- Net asset value per share
- Dividends per share
- Earnings per share

Risk/ gearing indicators

- Return on total capital employed
- **Interest on loan rate**
- Debt to equity ratio
- **The meaning of each category must be taught thoroughly to learners using examples.**
- **Formulae must be taught to learners using the categories mentioned above.**
- **When commenting, learners are encouraged to quote figures (current year vs previous year or business X vs Business Y figures or compare figures to those of other similar businesses).**
- **Compare ratios to the previous year's figures to see whether there is an increased or decreased.**

The ratios can help us to:

- Check whether there is a growth or stagnation in the business
- Check results with competitors' performance.
- Compare current results to previous years.
- Compare results to general economic indicators in the country or globally.
- Compare results to alternative investments.
- Determine the degree of financial risk by investors or creditors
- Take decisions with regards to dividend policy of the company

Some people interested in majoring the business results:

- Management
- Investors
- Shareholders
- Banks
- SARS
- Trade unions
- Competitors

ACTIVITIES

ACTIVITY D 1 **(MP TRIAL EXAM 2020 QUESTION 4)**

1.1. Concepts

REQUIRED

Concepts relating to companies are given in COLUMN A and descriptions in COLUMN B. Choose a description from COLUMN B that matches a concept in COLUMN A. Write only the letter (A – D) next to the question number (1.1.1 – 1.1.4) in the ANSWER BOOK.

COLUMN (CONCEPT)		COLUMN B (EXPLANATION)		
1.1.	Liquidity	A	indicates the benefit that the owners receive from their investment in the business	
1.2.	Solvency	B	indicates the extent to which a business is financed by borrowed capital	
1.3.	Gearing	C	indicates whether the business can pay off immediate debts	
1.4.	Return on equity	D	indicates whether the business will be able to pay off all its debts	(4X1)

1.2.1 Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures). (8)

1.2.2 The directors decided to change the dividend pay-out policy in 2020.

- Provide calculations that indicate the policy change. (4)
- Explain the effect of this change of policy on the company. State TWO points. (4)

1.2.3 One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures. (6)

1.2.4 Explain why the shareholders are satisfied with:

- The market price of the shares on the JSE (2)
- The price at which the 75 000 shares were repurchased on 25 April 2020. (2)

NB. In EACH case, quote figures/financial indicators.

INFORMATION:

The following financial indicators were calculated on 30 April:

	2020	2019
Current ratio	1,8 : 1	1,7 : 1
Acid-test ratio	0,9 : 1	1,3 : 1
Stock-holding period	52 days	68 days
Debtors' collection period	47 days	30 days
Debt-Equity ratio	0,3 : 1	0,4 : 1
Return on average capital employed	11%	13%
Return on average shareholders' equity	13,5%	14,5%
Earnings per share	107 cents	112 cents
Dividends per share	105 cents	40 cents
Net asset value per share	775 cents	768 cents
Market price per share (JSE)	960 cents	777 cents
Repurchase price per share	800 cents	-
Interest rate on loan	14%	13%

30

D 1 : ANSWERSHEET			
1.1	CONCEPTS		
1.1.1			
1.1.2			
1.1.3			
1.1.4			(4X1)
1.2	MIRIAM LTD		
1.2.1	Comment on the overall liquidity position of the company. Quote THREE relevant financial indicators (with figures).		
			(8)
1.2.2	The directors decided to change the dividend pay-out policy in 2020. Provide calculations that indicate the policy change.		
			(4)
	Explain the effect of this change of policy on the company. State TWO points.		
			(4)
1.2.3	One of the directors feels that the company should pay back the loan as soon as possible. What are your views about this? Quote and explain TWO relevant financial indicators with figures.		
			(6)
1.2.4	Explain why the shareholders are satisfied with the market price of the shares on the JSE. Quote figures/financial indicators.		
			(2)
	Explain why the shareholders are satisfied with the price at which the shares were repurchased. Quote figures/financial indicators.		
			(2)

ACTIVITY D2 (KZN TRIAL 2020 QUESTION)

2.1 CONCEPTS

Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.

	COLUMN A		COLUMN B
2.1.1	Trade unions	A	want to be assured that their investment in the company is used wisely
2.1.2	SARS	B	use the financial statements to make decisions to manage the company
2.1.3	Shareholders	C	monitor whether their members are paid fairly
		D	need to be assured that income tax is levied on the net profit correctly

2.2 MAHLABATHINI

The information relates to the financial year ended 30 June 2020.

REQUIRED:

2.2.1	Retained income	(11)
2.2.2	The company intends issuing the balance of the authorised share capital in the next financial year. The directors proposed that a fair issue price would be R10.20 per share.	
	• As an existing shareholder what factors/ financial indicators would you assess in determining whether R8.50 per share is a fair issue price? Provide reasons for your choices.	(4)
	• Khethiwe owned 43% of the shares in issue on 30 June 2019. Calculate the minimum number of shares she must purchase in order to retain her position as the major shareholder.	(3)
	• The major shareholder has suggested that she should be given the first option to purchase the additional shares before they are advertised to the public. What advice would you offer to the directors concerning this proposal?	(2)
2.3	Companies buy back shares from time to time. Explain the benefits from such transactions. Explain TWO benefits.	(4)
2.4	Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.	(4)
2.5	The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures)	(4)
2.6	Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures.	(5)

INFORMATION:

A. Extract from the Income Statement on 30 June:

	2020	2019
Interest on loan	17 000	12 000
Income tax (30% of the net profit before tax	90 000	81 000

B. Extract from the Balance Sheet on 30 June:

	2020	2019
Ordinary share capital	1 890 000	2 100 000
Retained income (9 January 2020)	560 000	

C.	**Shares:**			
	• The company is authorised 400 000 shares.			
	• 300 000 shares were in issue on 30 June 2019			
	• On 10 January 2020, 30 000 shares were repurchased at R9.			
	• 270 000 shares were in issue on 30 June 2020.			
D.	**Financial indicators on 30 June:**			
		2020	**2019**	
	Current ratio	1.9 : 1	1.4 : 1	
	Acid test ratio	0.7 : 1	0.8 : 1	
	Average debtors collection period	38 days	57 days	
	Average creditors payment period	30 days	63 days	
	Debt/equity ratio	0.2 : 1	0.5 : 1	
	Earnings per share (EPS)	84 cents	63 cents	
	Dividends per share (DPS)	34 cents	52 cents	
	Return on shareholders' equity (ROSHE)	11%	9%	
	Return on capital employed (ROTCE)	20.8%	22.3%	
	Net asset value per share (NAV)	1 033 cents	490 cents	
	Market price on JSE	850 cents	485 cents	
	Interest on investment	7%	5%	
	Interest rate on loans	11%	10%	

ACTIVITY D2: ANSWER SHEET							
2.1	Choose a description in COLUMN B that matches the user of financial statements in COLUMN A. Write only the letters (A to D) next to the question numbers (2.1.1 to 2.1.3) in the ANSWER BOOK.						
	2.1.1		2.1.2		2.1.3		(3X1)
2.2							
	2.2.1	Retained income					
		Paid				27 500	
							(11)

2.2.2. As an existing shareholder what factors/ financial indicators would you assess in determining whether R10.20 per share is a fair issue price? Provide reasons for your choices.	(4)
Khethiwe owns 43% of the shares in issue on 30 June 2019. Calculate the minimum number of shares she must purchase in order to be a major shareholder.	(3)
The majority shareholder suggested that she should be given the first option to purchase the additional shares before they are advertised to the public. What advice would you offer to the directors concerning this proposal?	
	(2)
2.3. Companies buy back shares from time to time. Explain the benefits from such transactions. Explain TWO benefits.	(4)
2.4. Quote TWO financial indicators (with figures and trends) that indicate an improvement in the liquidity position of the business.	(4)
2.5. The company paid back a large portion of the loan. Explain why this was a good decision. Quote TWO financial indicators (with figures)	(4)
2.6. Comment on the dividend pay-out policy over the past two years. Provide a possible reason for the policy adopted. Quote figures.	
	(5)

ACTIVITY D3 **FS TRIAL EXAM 2020 Q3 & 4**

3.1. PROGRESS LTD

You are provided with information from the financial statements of Progress Ltd. The financial year ended on 29 February 2020.

REQUIRED

3.1.1	Calculate the net asset value per share on 29 February 2020.	(3)
3.1.2	Calculate the return on total capital employed for the 2020 financial year.	(8)
3.1.3	The directors of Progress Ltd want to take out a loan for R500 000. Would you advise them to take out the loan? Quote ONE financial indicators (actual figure/ratio/percentage) that are relevant to their decision.	(3)

	2020	2019
Shareholders' equity	1 630 000	1 280 000
Shares issued	400 000	300 000
Loan: Direct Loans	380 000	520 000
Current assets	488 000	412 000
Current liabilities	621 000	578 000
Total assets	2 631 000	2 378 000
Net profit before income tax	620 000	388 000
Net profit after income tax	452 600	429 240
Interest expense	76 200	68 400

FINANCIAL INDICATORS AT THE END OF THE FINANCIAL YEARS

	2020	2019
Debt/Equity ratio	0,23 : 1	0,41 : 1
Current ratio	0,79 : 1	0,71 : 1
Asset test ratio	0,50 : 1	0,45 : 1
Return on total capital employed	?	25,4 %
Return on shareholders' equity	24,3 %	36,1 %
Solvency ratio	2,6 : 1	2,2 : 1

3.2. CONCEPTS

REQUIRED:

Choose a term in COLUMN B that matches the description in COLUMN A. Write the letter (A–E) next to the question numbers (2.1.1–2.1.5) in the ANSWER BOOK.

	COLUMN A (Term)	COLUMN B (Description)	
3.2.1	The extent to which a company is financed by loan	A	Solvency
3.2.2	An increase in creditors indicates an ... of cash	B	Liquidity
3.2.3	A decrease in creditors indicates an ... of cash	C	Inflow
3.2.4	Ability of the business to pay of all its debts	D	Gearing
3.2.5	Ability of the business to pay off its short-term debts	E	Outflow

(5)

3.3 BENCO LTD

You are provided with information relating to Benco Ltd for the financial year ended 30 September 2020.

REQUIRED

3.3.1 From 2019 to 2020 the directors made a deliberate decision to change the policy on the distribution of profit in the form of dividends. Explain this change. Quote figures/calculations to support your answer. (4)

3.3.2 If the balance on the loan at the end of 2020 is R680 000, calculate the shareholders' equity at the end of 2020. (2)

3.3.3 Comment on whether the shareholders should be satisfied with the market price of their shares. Quote TWO relevant financial indicators (actual figures/ratios/percentages) and their trend. Give an additional comment to support your answer. (5)

INFORMATION

C. Financial indicators

	2020	**2019**
Earnings per share (EPS)	60 cent	56 cent
Dividends per share (DPS)	33 cent	56 cent
Net asset value per share (NAV)	364,7 cent	315,6 cent
Debt/Equity ratio	0,5 : 1	0,1 : 1
Current ratio	1,6 : 1	1,5 : 1
Acid test ratio	0,6 :1	0,4 : 1
Market price per share	385 cent	310 cent

ACTIVITY D 3 ANSWERSHEET

ACTIVITY D4 (KZN MARCH COMMON TEST 2020 Q 2 & 3)

4.1 Choose an accounting concept from **Column B** that best matches the analysis questions in **Column A.** Write only the letter (A – D) next to the number (4.1.1 – 4.1.3) in the ANSWER BOOK.

	COLUMN A		COLUMN B
4.1.1	To what extent does the business rely on borrowed funds?	A.	Liquidity
4.1.2	Can the business pay off all its debts?	B.	Solvency
4.1.3	Is the business able to pay its short-term debts in the next financial year?	C.	Profitability
		D.	Risk and gearing

(3)

4.2. Refer to information C.

The CEO, Glencoe Hilton currently owns 46.4% of the issued shares on 1 March 2019. The board of directors has decided to repurchased some shares and issue all the unissued shares.

4.2.1. Calculate the percentage (%) of shares that Glencoe owns after the repurchased of shares. (3)
NOTE: None of Glencoe's shares were repurchased

4.2.2. Calculate the minimum number of shares Glencoe must buy when the unissued shares have been issued to gain control of the company. (3)

4.2.3 Glencoe wants to purchase the additional shares at R3,00 without advertising the shares to the public. Give THREE reasons (with figures) why you would not approve of this. (3)

4.3. The directors are of the opinion that the liquidity has decreased. Quote THREE financial indicators (with figures) to support this opinion (3)

INFORMATION:

C. Shares:

- Authorised share capital is 2 000 000 ordinary shares.
- On 28 February 2019, 1 200 000 ordinary shares had been issued.
- On 1 October 2019, 40 000 shares were repurchased at R4.10. (These shares do not qualify for final dividends.)
- On 29 February 2020, all shares that were un-issued as at 28 February 2019 were issued.

D. Dividends:

- Interim dividends of 40 cents per share was declared and paid on 30 August 2019.

Final dividends of 55 cents per share was declared.

E. Fixed assets:

Fixed assets were sold for cash at a carrying value of R200 000 during the financial year. Fixed assets were also purchased during the financial year.

F. The following financial indicators were calculated for the past two financial years:

	2020	2019
Current ratio	0.9 : 1	2 : 1
Acid test ratio	0.5:1	0.9:1
Debtors collection period	21 days	38 days
Stock turnover rate	11 times	15 times
Debt-equity ratio	0.1:1	0.3:1
Return on total capital employed (ROTCE)	?	29%
Return on shareholders' equity (ROSHE)	17%	20%
Earnings per share (EPS)	54 cents	33 cents
Dividend per share (DPS)	95 cents	60 cents
Net asset value per share (NAV)	?	390 cents
Interest rate on investment	9%	9%
Market value (JSE)	400 cents	300 cents

4.3.	**UVONGO LTD AND UMLAZI LTD**		
	You have R200 000 to invest in a listed company. You choose to focus on two companies in the same industry.		
	Note: When answering the questions below, compare the information given and quote the relevant financial indicators of both companies (percentages, ratios and/or amounts).		
	4.3.1	Compare and comment on the dividend pay-out policies of the two companies.	(3)
	4.3.2	Comment on the value of the shares of the two companies on the Johannesburg Securities. Explain how this will influence your choice of company.	(3)
	4.3.3	Comment on the degree of risk and gearing. Explain how this will influence your choice of company.	(3)

INFORMATION

	UVONGO LTD	UMLAZI LTD
Debt-equity ratio	0.4:1	1.1:1
Return on total capital employed (ROTCE)	16%	10%
Return on shareholders' equity (ROSHE)	19%	9%
Earnings per share (EPS)	650 cents	1 000 cents
Dividend per share (DPS)	585 cents	500 cents
Net asset value per share (NAV)	350 cents	800 cents
Market price of shares on JSE	470 cents	700 cents
Interest rate on loans	11%	11%

ACTIVITY D 5 **KZN JUNE COMMON TEST Q 4**

5.1 WEMBEZI LTD

Veli is a shareholder in Wembezi Ltd.

- He purchased 23 000 shares two years ago at R3,80 each.
- On 1 March 2019 he purchased a further 2 000
- On 1 February 2020 the company repurchased 3 000 of his shares.

REQUIRED:

5.1.1	Calculate the amount of dividends Veli earned for the financial year ended 29 February 2020. Shares repurchased do not qualify for final dividends.	(3)
5.1.2	Veli is not satisfied with the dividend policy of Wembezi Ltd. Explain why. Quote and compare relevant financial indicators to support his feelings.	(4)
5.1.3	Veli wants to sell his shares in Wembezi Ltd and invest his funds in an alternative investment. Quote and explain TWO relevant indicators, other than dividends and earnings, to support his intention.	(4)
5.1.4	Why would the company spend money on skills development? Explain ONE point.	(2)
5.1.5	**Refer to Information A.** How did the company benefit from this (4.1.4)? Name ONE example and quote figures.	(2)

INFORMATION:

A. Extract from the Income Statement for the year ended:

	29 Feb 2020	28 Feb 2019
Sales	18 500 000	13 700 000
Cost of Sales	13 200 000	9 500 000
Directors fees	2 530 000	1 800 000
Audit fees	620 000	570 000
Skills development	140 000	80 000
Salaries and wages	480 000	375 000
Workplace accident cost	8 000	23 000
Electricity	121 000	118 000
Loss of production	2 000	7 000
Interest expense	175 500	270 000
Net profit before tax	1 875 000	

B. Dividends

- The company paid an interim dividend of 30c per share on 1 December 2019.
- A final dividend of 50c per share was declared at the end of the financial year. The shares repurchased do not qualify for final dividends.

C. The following ratios were calculated on:

	29 Feb 2020	28 Feb 2019
Return on shareholders' equity	20%	23%
Closing price on JSE	640 cents	750 cents
Dividends per share	85 cents	120 cents
Earnings per share	170 cents	160 cents
Return on total capital employed	27%	28%
Net asset value	655 cents	760 cents
Debt/Equity ratio	0.11:1	0.14:1

ACTIVITY D 6 **KZN JUNE COMMON TEST Q4**

6.1 ZINKWAZI LTD

You are provided with information relating to Zinkwazi Ltd for the financial year ended 30 June 2020.

REQUIRED:

6.1.1 Comment on the liquidity position of the company. Quote THREE financial indicators (with figures) in your answer. (6)

6.1.2 One of the directors feel that the loan should be paid as soon as possible. Do you agree? Explain. Quote TWO financial indicators with figures to support your answer. (5)

6.1.3 The shareholders should be satisfied with the return on their investment and the companies' earnings. Explain TWO financial indicators with figures to support this opinion. (4)

INFORMATION:

The following financial indicators were calculated:

INDICATORS	30 June 2020	30 June 2019
Return on shareholders' equity	18%	10.6%
Return on capital employed	24%	14%
Debt/equity ratio	0.06 : 1	0.28 : 1
Earnings per share	49 cents	45 cents
Dividends per share	30 cents	45 cents
Net Asset Value per share	695 cents	572 cents
Current ratio	0.9 : 1	1.7 : 1
Acid-test ratio	0.4 : 1	0.6 : 1
Rate of stock turnover	3 times	5 times
Interest rate on loan	16%	12%
Interest rate on investment	6%	5%
Market value per share on JSE	810 cents	720 cents

E: INVENTORY VALUATION

THINGS TO REMEMBER

Stock validation is how to validate and calculate inventories at the end of the financial year using the **Weighted average, FIFO or Specific identification method**

In simple language, this topic is all about at what value are you going to record the closing stock. You have bought stock during the year at different prices and now at the end of the financial year you have to take stock and put a value to the closing stock.

To ensure that you understand the aim of this topic, you need to revise on the perpetual and periodic stock methods

METHODS OF DETERMINING THE STOCK VALUE.

During the financial year, an enterprise paid different prices for various purchases. Only a portion of the stock purchased during the year will be left at the end of the financial period. A decision has to be taken as to which of **the various prices** for the stock purchased during the year must be regarded as the **purchase price** for those items still on hand.

When adopting a method to determine the cost price of the stock still on hand, the wisest choice would be that method which can facilitate the most realistic determination of profits for any specific business.

The THREE methods most generally used to determine cost of stock on hand at the end of the financial period are:

- **Specific identification method**
- **Weighted average method**
- **First-in-first-out method (FIFO)**

BASELINE KNOWLEDGE ON THE PERIODIC AND PERPETUAL STOCK SYSTEMS	
PERPETUAL STOCK SYSTEM • Cost of sales is calculated when goods are sold. • Cost of sales is calculated every time cash or credit sales are recorded.	**PERIODIC STOCK SYSTEM** • Cost of sales is NOT calculated during the year • Cost of sales is only calculated at the end of a month or at the end of the year.
• Undertakings that are selling one type of commodity, like cars, or Persian carpets, or DvD's, will make use of the perpetual stock method. • This system requires a computer system which can scan the barcode on the stock. • This means that the Trading stock is updated on a daily basis so that they always know how much stock is available.	• Undertakings where it is a challenge to calculate the cost price of single articles, e.g. grocery stores, fresh produce, bakeries, etc. • It is not so easy to determine the cost price of this type of stock. • They will know how much stock they have only when they do a physical stock count at the end of the financial year.

PERPETUAL STOCK SYSTEM	PERIODIC STOCK SYSTEM
Advantages ✓ Better control over stock ✓ All movements in stock is recorded on a daily/ regular basis records are always up to date ✓ Theft are quickly detected ✓ Internal controls can be improved ✓ Cost price of the goods sold and gross profit can be determine when goods are sold. ✓ Trading stock can be easily controlled through regular stock counts. ✓ Trading stock deficit can be calculated immediately.	**Advantages** ✓ The system is cost effective. ✓ It is not necessary to calculate cost of sales ✓ Suitable for a business with a variety of goods and services where it is difficult to determine the cost price. ✓ This system is used when the commodity's cost price is not easily determined. ✓ Quick and easy to use with minimum administration required
Disadvantages ✓ A computer system is required and can be expensive. ✓ It is difficult to monitor costs related to the acquisition of stock e.g. carriage on purchases, custom duty, because this cost are added to the trading stock account	**Disadvantages** ✓ Theft will not be easily detected. ✓ Final stock figure is only determined by counting the goods. ✓ Gross profit can only be determined at the end of the month/week when a stock take is done as there is no cost of sales entries and regular updates of the Trading stock account

CALCULATION OF COST OF SALES

The following calculations must be encouraged to be done and understood by all learners.

PERIODIC INVENTORY

e.g. Opening stock 10 000

Plus Purchases (net) (Purchases minus creditors allowances) (108 000 - 8 000)	100 000
Plus Carriage on Purchases	18 000
Plus Custom / Import duties	12 000
	140 000
Less Closing Stock	(15 000)
= COST OF SALES	**125 000**

PERPETUAL INVENTORY

Sales is R200 000

Cost of sales is 60 % on cost

$200\,000 \times \frac{100}{160} = R125\,000$

Cost of Sales = R125 000

G. CALCULATION OF GROSS PROFIT

Memorise the format and do activities to revise the TRADING ACCOUNT and PURCHASES ACCOUNT before calculating the value of the closing stock using the three stock validation methods

PERIODIC INVENTORY	PERPETUAL INVENTORY

PERIODIC INVENTORY

DR TRADING ACCOUNT (F1) CR

+Opening stock	10 000	- Closing stock	15 000
+Purchases	100 000	-Sales (net)	200 000
+Carriage on Purchases	18 000		
+Custom duties	12 000		
Profit and loss (gross profit)	75 000		
	215 000		215 000

(closing stock +sales)- (opening stock+ purchases + carriage on purchases + custom duties) = gross profit

(15 000 + 200 0000) – (10 000 + 100 000 + 18 000 + 12 000) = 75 000

PERPETUAL INVENTORY

[redacted]

Cost of sales	125 000	Sales	200 000
Profit and loss (gross profit)	75 000		
	200 000		200 000

Sales(net) minus cost of sales = Gross profit

200 000 - 125 000 = 75 000

STOCK VALUATION METHODS

The price of stock always changes. Shops do not always wait until they are completely sold out before ordering more stock, so, on the shelves at any time will be, for example, the same cans of condensed milk with different purchasing prices.

When we do stock taking, at what price are we going to value the condensed milk cans?

The 3 options at school level are **Specific Identification, FIFO and Weighted Average Method** that will be used to demonstrate the valuation of stock.

TOPIC	SPECIFIC IDENTIFICATION	FIFO	WEIGHTED AVERAGE
When the value of the closing stock is calculated.	❑ The stock will be at the exact cost price that the stock was bought therefore the stock will be valued at the original cost price.	❑ The stock will work out at a slightly higher price assuming that the latest price for the goods is the highest price of the year	❑ The stock will not actually be the cost of any goods bought and may be low if goods have not been bought recently
Gross profit	❑ The gross profit will be as is.	❑ The Gross profit will be higher than the gross profit of weighted average method in the current financial period	❑ Can be lower ❑ The gross profit can show a smaller profit than FIFO

1. Specific identification method

- This is the simplest form of stock validation, where every item is assigned a specific cost price.
- This system is relevant when large commodities are sold and every unit has its own cost price, e.g. vehicles, machinery, etc.
- That means that this system requires that the cost price must be identified of every commodity sold or when stocktaking is done.
- Specific identification is a more manually intensive method in managing the stock.
- So every item in stock will be recorded at the specific price originally bought.
- The disadvantage of this method is that the price of e.g. a vehicle can be manipulated.

A red Ford 1.6 was bought at the beginning of the year for R100 000 and during the year the dealer bought a white Ford 1.6 at an increased cost price of R130 000. When the red car got sold the dealers can manipulate the price by recording the cost price as R130 000. So the profit was manipulated by showing a smaller profit than the true profit. The dealers can do the opposite as well when they want to show a higher profit.

2 FIFO:

- This is the simple and easy way of doing it.
- The stock that was bought first is sold first, and the stock on hand at stock taking, will be the stock that you recently bought.
- So you sell the goods in the order that you bought the stock.
- The system can be used for any type of business
- The trader that stocks products that do not have a long life (short/ limited shelf life) will preferably use this method.
- Proper packing and display is essential - "old" stock should be in the front and "new" stock at the back.
- The **Prudence concept** is in used. The value of the stock at the year- end is realistic because the stock is valued at the most recent prices.

3 WEIGHTED AVERAGE METHOD

- Weighted average method is used when lots of stock is bought in small quantities.
- The average price gives a good composite picture of the cost of the goods.
- The influence on the average price will be minimal when only a few items are bought. (You had 500 in stock at an average price of R10 (R5000) and you bought 2 at R50 (R100)
- However when you had 2 in stock at an average price of R10 (R20) and you purchase 500 at R50 (25 000), the average price will be considerable. But the price of R50 per item is now showing as R49, 84. (therefore the stock purchasing value decreased)
- At the end of the year when the closing stock value is determined, the average price will be used to calculate the value of the closing stock;
- The average cost of a product is calculated by **dividing the cost of the units** by the **total number of the units.** Weighted means that the more stock you buy the greater the influence on the answer.

[redacted]

PHYSICAL CONTROL

- [redacted].

  The single most important inventory control is to secure it. This could include constructing a fence, security gate, etc. Only allow authorized personnel into the warehouse.

- **ORGANISATION OF STOCK.**

  It may not seem like a control to simply organize the inventory in the warehouse, but if you cannot find it, you cannot control it. Thus, a fundamental basis for inventory internal control is to number all locations, identify each inventory item, and track these items by location.

- **PHYSICAL CONTROL AND DOCUMENTATION**:

  Count all incoming inventory. When stock is delivered at a business it must be done in an orderly manner. Stock to be delivered and counted and checked against the order form and the delivery form. This keeps errors from occurring in the inventory records.

- **PHYSICAL INSPECTION OF INCOMING INVENTORY.**

  Verify that all incoming inventory is of the correct type and is not damaged. All items that fail inspection should be returned at once, and the accounts payable staff notified that the returned items should not be paid for.

- **DOCUMENTATION STANDARDIZES RECORD KEEPING.**

  When an item is removed from the shelf in the warehouse, for use either in the production area or for sale to customers, have a standard procedure for recording these items as soon as they leave the warehouse.

- **AUTHORISATION:**

  Proper authorisation for removal of inventory from the warehouse/store room. No items must be removed from the warehouse or store rooms without the necessary authorisation.

- **PHYSICAL CONDUCT OF A PERIODIC OBSOLETE INVENTORY REVIEW.**

  A warehouse can eventually become choked with obsolete inventory that cannot be used, which requires high storage costs and also interferes with the components that are needed in production. Form a materials review board that periodically checks through the inventory records to determine which items should be sold off or otherwise eliminated. (prudence principle)

- **PHYSICAL CONDUCT OF CYCLE COUNTS.**

  Have the warehouse staff conduct small, frequent counts of a small portion of the inventory, and investigate and correct any errors they find. This gradually improves the inventory record accuracy. (internal control)

- **DOCUMENTATION RECORD SCRAPS TRANSACTIONS.**

  Do not just throw waste/ damaged items in a scrap bin when it occurs. If you do, the accounting system still thinks the scrapped item is in stock, and so will overstate the amount of inventory. Instead, create a procedure to track scrap on a regular basis.

ACTIVITY :E1 BASELINE

You are provided with the information relating to Mnyandu Appliances. The following stock appeared on their stock cards.

Study the template of the number of stock bought at purchase price and the selling price of all the stock sold.

INFORMATION

The items below were in stock and some sold: January to December 2020

Date		GLG			Gamsung			Hosch			Total value of stock
		No	Cost price	Total	No	Cost price	Total	No	Cost price	Total	
Jan	Opening stock	2	@R1 000	R2 000	3	@R2 000	R6 000	4	@R3 000	R12 000	= R 20 000
April	Purchases	3	@R1 200	R3 600	2	@R2 100	R4 200	2	@R3 300	R6 600	= R 14 400
										Value of total stock	R 32 400
		No	Cost price	Selling price	No	Cost price	Selling price	No	Cost price	Selling price	
Jan to	Sales	1	@R1 000	R2 000	3	@R2 000	R12 000	3	@R3 000	R18 000	= R 32 000
Dec.	Sales	2	@R1 200	R4 800				1	@R3 300	R6 600	= R 10 400
										Value of total sales	R 43 200

***REQUIRED:**

Make use of the Specific Identification stock method to calculate;

1.1 Number of unsold units.

1.2. Value of unsold units

1.3 Cost of Sales

1.4 Gross profit

1.5 Show the Trading Account in the Perpetual and Periodic Stock systems

ACTIVITY :E1 BASELINE

1.1	**Number of unsold units:**
1.2	**Value of unsold units**
1.3	**Cost of Sales**
1.4	**Gross profit:**

1.5 ***Perpetual inventory system***

Dr		TRADING ACCOUNT (F 1)		N	Cr				
		Cost of Sales					Sales (net)		
		Profit and Loss (gross profit)							

Periodic inventory system

Dr		TRADING ACCOUNT (F 1)		N	Cr				
		Opening Stock					Sales		
		Purchases(net)					Closing stock		
		Carriage on Purchases							
		Profit and Loss (gross)							

ACTIVITY :E2

REVISION ON PRIOR KNOWLEDGE:/BASELINE ASSESSMENT [Activity to be done by teacher and learners]

The following information was taken from the books of Mthembu Traders on 30 June 2020, the last day of the financial year. Mthembu Traders uses a mark-up of 25% on cost.

Trading stock (1 July 2019)	R 480 000
Purchases of stock during the year	370 000
Sales	910 000
Debtors Allowances	90 000
Carriage on purchases	6 000
Custom Duties	5 000
Trading stock (30 June 2020)	205 000

REQUIRED:

Prepare the Trading account of Mthembu Traders on 30 June 2020 according to:

2.1 The perpetual inventory system

2.2 The periodic inventory system

2.1 Perpetual inventory system

Dr		TRADING ACCOUNT (F 1)						N	Cr

Calculation of cost of sales:

2.2		**Periodic inventory system**							
Dr		TRADING ACCOUNT (F 1)						N	Cr

Calculation of cost of sales:

ACTIVITY :E 3

REQUIRED:

Use the information provided below to complete the following for Thabani's Plumbing Suppliers for the year ending 31 July 2020.

3.1 The Purchases account in the General Ledger, correctly closed off on 31 July 2020. (13)

3.2 Calculate the Cost of Sales, for the year ending 31 July 2020, using the periodic inventory system. (Show calculations in brackets so part marks can be awarded.) (7)

3.3 Calculation of the Gross Profit for the year ending 31 July 2020. (5)

INFORMATION:

Extract from the Trial balance on 1 July 2020:

Trading Stock (1 August 2019)	10 600
Purchases	450 000
Carriage on Purchases	6 500
Sales	710 000

ADDITIONAL INFORMATION FOR JULY 2020:

- R117 000 stock was purchased during July 2020. One third of this was for cash, the remainder was bought on credit.
- Thabani Plumbing Suppliers was charged R600 for the transportation of stock from the suppliers to their shop.
- Defective stock valued at R 5 100 was returned to Tool City, our creditor.
- The owner took stock worth R1 300 for personal use.
- Total sales for the month amounted to R53 600.
- According to a physical count, stock worth R12 400 was on hand on 31 July 2020.

ACTIVITY :E3 **(25 Marks, 15 Minutes)**

3.1 **DR** **Purchases** **CR**

13

3.2 **Calculation of Cost of Sales.**

7

3.3 **Calculation of the Gross Profit for the year ending 31 July 2020.**

5

ACTIVITY E 4

4.1 **CONCEPTS**

Pick the correct stock concept from those within brackets.
Write the correct answer only next to each number (4.1.1–4.1.4) in the ANSWER BOOK. (4)

4.1.1 The (**first-in-first-out / weighted average**) stock valuation method will record closing stock at the most current stock prices.

4.1.2 The (**first-in-first-out / weighted average**) method is more relevant for low cost stock items that is purchased on a more regular basis.

4.1.3 The (**first-in-first-out / specific identification**) valuation method is suitable for very expensive, individually identifiable stock items.

4.1.4 The (**periodic / perpetual**) stock system records the cost of goods sold at the point of sales.

4.2 ***40 Love***

Ivan Lendl owns *40 Love*, a sports shop. The financial year ends on 30 April each year. The business uses the periodic inventory system to record stock.

REQUIRED:

4.2.1 **Refer to Information A:**

Tennis balls are valued using the weighted average method. Calculate:

- Value of the closing stock (8)
- The cost of sales (3)
- The stock holding period (in days; use average stock) (4)

4.2.2 Comment on whether the stock holding period is appropriate or not. (2)

4.2.3 **Refer to Information B:**

The specific identification method is used to maintain the stock records of tennis rackets. Calculate the following:

- Value of the closing stock of Nexus rackets (10)
- The gross profit on Olympus rackets. (4)

INFORMATION:

A. Tennis balls are sold in packs of three.

Stock records of tennis balls:

	PACKS (units)	COST PER PACK (R)	TOTAL (R)
Stock balance (1 May 2020)	132		7 955
Purchases during the year:	**610**		**48 120**
July 2020	220	R75	16 500
October 2020	180	R80	14 400
January 2021	210	R82	17 220
Total packs available for sale	~~**742**~~		**56 075**
Returns: 12 defective packs from the October 2020 purchases were returned to the suppliers and a full refund was received.			
Stock balance (30 April 2021)	120		?

B. The business stocks and sells two brands of tennis rackets, Nexus and Olympus.

Stock records of rackets (at cost)

	NEXUS			OLYMPU		
	UNITS	UNIT PRICE	TOTAL	UNITS	UNIT PRICE	TOTAL
Opening Stock 1 May 2020	13		34 320	9		48 600
Purchases	**60**		**169 750**	**36**		**200 500**
July 2020	20	2 800	56 000	12	5 525	66 300
October 2020	15	2 750	41 250	10	5 580	55 800
January 2021	25	2 900	72 500	14	5 600	78 400

Sales records

BATCH	NEXUS		OLYMPUS	
	UNITS SOLD	Sales amount	UNITS SOLD	Sales amount
1 May 2020	11	39 050	4	32 400
July 2020	16	56 800	7	49 725
October 2020	12	42 600	6	58 590
January 2021	14	49 700	8	67 200
TOTAL	**53**	**188 150**	**25**	**207 915**

Nexus brand is sold at a fixed selling price per unit.

Olympus brand is sold at a mark-up of 50% on cost.

ACTIVITY E 5 : STOCKVALUATION AND PROBLEM SOLVING

The information presented appeared in the books of Phelix Traders. The business is owned by Max Phelix. It sells a single brand laptop. The financial year ended on 28 February 2021.

REQUIRED:

5.1 **Refer to Information A and B:**
Calculate the value of the closing stock using the first-in-first-out (FIFO) method of stock valuation. (10)

5.2 Calculate the cost of sales of the laptops sold. (6)

5.3 Max wants to change his stock valuation method to either the weighted average method or the specific identification method.

- How would a change in policy impact on the financial reporting of the business? Give ONE point. (2)

5.4 Taking into account the technology market, what advice can you offer Max regarding his marketing strategy and his pricing policy? Provide TWO points. (4)

5.5 The owner has submitted the claim form for the loss of stock as a result of the fire to the insurance company. However, the number of units destroyed in the fire was reflected as 15 while it is evidenced that there were no laptops lost due to fire. Explain what you would say to the owner regarding this insurance claim. (2)

INFORMATION:

A.

	NUMBER OF UNITS	UNIT PRICE (R)	Transport cost per unit	TOTAL (R)
Stock balance on 1 March 2013	15	3 400		51 000
Total purchases for the year:	**62**			**329 360**
May 2020	12	4 250	230	53 760
August 2020	20	4 740	250	99 800
November 2020	14	5 520	260	80 920
January 2021	16	5 650	280	94 880
Units returned to suppliers *	7	?		?
Stock balance on 28 February 2021	17	?		?

B. ***Units returned to suppliers:**

- 3 units from the August purchased were returned because they were not according to the order placed.
- 4 units from the January batch were returned due to minor damages in transit.
- In both cases the transport cost was borne by the business.

C. Laptops are sold at a fixed selling price of R7 500 each.

5.6 PROBLEM SOLVING

Siddie Traders LTD has THREE branches at popular shopping malls selling a single brand of cookware.

Although the business is making a profit, Siddie is concerned about the profitability of each branch. She decided to investigate and presented the information below, for June 2020 (one month).

REQUIRED:

5.6.1 Identify a different problem (with relevant figures) in each of the branches. (6)

5.6.2 Identify ONE branch that Siddie should consider closing down. Provide a valid reason for your choice. (3)

5.6.3 Give Siddie ONE suggestion to address the problem identified in QUESTION 5.5.1 for each of the other branches. (4)

INFORMATION:

The shops are open 7 days a week.

Normal time is from 8:30 am to 4:30 pm, Mondays to Fridays (160 hours per month)

Overtime is from 4:30 pm to 6:30 pm Mondays to Fridays and from 9:30 am to 12:30 pm on weekends (56 hours per month)

Overtime salary rate is 1,5 times the normal rate.

	MENLYN BRANCH	**MOORTON BRANCH**	**VINCENT BRANCH**
Salesperson (age)	Sally (42 years)	Tim (27 years)	John (62 years)
Stock on hand (1 June 2020)	50 units	50 units	50 units
Selling price per set	R4 200	R4 200	R4 200
Sets sold	42	36	22
Sets returned	5	12	1
Credit sales	R54 600	R88 200	R21 000
Deposits from cash sales	R79 800	R12 600	R67 200
Hours worked (normal time)	154 hours	117 hours	102 hours
Overtime hours	20 hours	52 hours	2 hours
Rent expense (per month)	R6 000	R8 000	R5 500

ACTIVITY 6: INVENTORY VALUATION (40 marks; 25 minutes)

6.1 Choose the correct term from those given in brackets. Write only the term next to the question numbers (6.1.1 to 6.1.3) in the ANSWER BOOK.

6.1.1 The most recent purchases will be considered as closing stock in the (FIFO/weighted-average) stock valuation method

6.1.2 Merchandise purchased is recorded in a Trading Stock Account in the (perpetual/periodic) inventory system.

6.1.3 Carriage on purchases is recorded as an (asset/expense) in the periodic inventory system

(3 x 1) (3)

6.2 PHOTO-FIX TRADERS

The information relates to Photo-fix Traders for the financial year ended 30 April 2019. The business is owned by Tom Samuels and sells two models of cameras (Grand and De-Lux) and photo frames.

- The stock of cameras is valued using the specific identification method.
- Photo frames are valued using the weighted average method.

REQUIRED:

6.2.1 Calculate the value of closing stock of **cameras** on 30 April 2019.

6.2.2 Calculate the value of closing stock of **photo frames**.

6.2.3 The owner suspects that **photo frames** are being stolen.
Provide a calculation to confirm his suspicions.

6.2.4 Tom is thinking of employing an assistant at a wage of R3 500 per month to control the stock of **photo frames**.
Explain why this is NOT a good idea. Provide TWO points with figures/calculations.

INFORMATION:

The following information is in respect of the year ended 30 April 2019

A. CAMERAS: STOCK, BOUGHT AND SOLD

	BOUGHT			UNITS SOLD
	UNITS	**UNIT COST**	**TOTAL**	
GRAND MODEL				
Opening stock	20	R5 500	R110 000	14
Purchases	240	R5 750	R1 380 000	170
DE-LUX MODEL				
Net purchases:	**270**		**R1 104 000**	**235**
September 2018	180	R4 000	R720 000	140
Returns	(30)	R4 000	(R120 000)	
January 2019	120	R4 200	R504 000	95

B. PHOTO FRAMES: STOCK, BOUGHT AND SOLD

	UNITS	AMOUNTS
Opening stock	60	R7 200
Purchases	720	R108 000
Returns	30	R4 500
Closing stock	80	?
Sales	657	

6.3 MANAGEMENT OF INVENTORIES

The information relates to Lyle Furnishers for the financial year ended 28 February 2019. The business sells cupboards, tables and chairs. No stock went missing during the year

REQUIRED:

Provide ONE different problem (with figures) relating to EACH product and ONE solution to EACH problem.

(9)

INFORMATION:

	CUPBOARDS	TABLES	CHAIRS
Opening stock (units)	200	160	1 300
Purchases (units)	2 500	3 050	6 000
Selling price per unit	R1 750	R850	R350
Credit sales (units)	800	2 400	2 100
Returns by customers (units)	(500)	(10)	0
Cash sales (units)	1 000	600	2 250
Closing stock (units)	400	200	2 950
Cash received from cash sales	R1 750 000	R470 000	R787 500

ACTIVITY E 7

INVENTORY VALUATION

You are provided with information in respect of Magic Soccer Balls Shop for the year ended 28 February 2021. The business is owned by Thabani Pule.

The business uses the perpetual inventory system and the FIFO method of valuing stock.

REQUIRED:

7.1 Explain the meaning of the term 'FIFO'.

7.2 The selling price of soccer balls was kept constant throughout the year. Calculate the selling price per soccer ball.

7.3 The owner, Thabani Pule, is aware that some soccer balls were stolen from the storeroom in April 2020. No entry has been made.

- Calculate the number of balls that are missing. (stock stolen from the opening stock @ R110)
- What entry would you make in the books to record this?

7.4 Value the stock on hand at the year-end according to the FIFO method.

7.5 Calculate following:

- Cost of sales
- Gross profit for the year.

7.6 Thabani is not sure when to place his next order of soccer balls.

- How long can he expect the closing stock to last? Provide figures or a calculation to support your answer.
- What advice will you offer Thabani about his purchases of stock? Provide two points.

INFORMATION

Accounting records relating to the soccer balls:

Details	Date	No. of balls	Unit price	Total
Opening stock	1 March 2020	750	R110	R 82 500
Purchases		2 480		R 340 800
	20 May 2020	800	R150	R 120 000
	25 October 2020	1 200	R120	R 144 000
	16 December 2020	480	R160	R 76 800
Closing stock	28 February 2021	1 100	?	?
Sales	1 March 2020 to 28 February 2021	2 100	?	R 430 500

F. COST ACCOUNTING

RELATED CONCEPTS/ TERMS/VOCABULARY	
Manufacturing business	**A trading enterprise** is an enterprise that buys and sells manufactured products at a profit. In a trading enterprise we talk about purchased and sold trading stock. **A service enterprise** is an enterprise where persons use their skills to provide a service to the community. **A manufacturing** enterprise is an enterprise that manufactures products (completed products) from raw materials. **(It transforms raw materials into finished or completed products. It important to remember that after the product is manufactured it then has to be sold.)**
Costing	It is the calculation of the costs involved in producing a product
Unit	The word used to describe a single product made in the factory
Direct material costs	The raw material actually needed to make the product – also called Direct raw material cost
Direct labour costs	This is the amount paid to workers who actually manufacture the product
Prime/ direct cost	Direct material cost plus direct labour cost
Indirect material costs	These are materials that are not directly involved with the manufacturing of the product (e.g. cleaning material costs, packing materials)
Indirect labour costs	This is the amount paid to workers in the factory who are not directly involved with the making of the product e.g. the cleaning staff)
Factory overheads	These are the expenses to run the factory, but none of them are directly involved with the making of the product. (e.g. factory rent) Indirect labour and indirect materials are treated as part of factory overheads
Total production cost or manufacturing costs	It is the total cost to produce the products. Prime cost plus factory overhead cost (Direct material cost + Direct labour cost + Factory overhead cost)
Cost per unit (unit cost)	This is the cost of producing one product/unit (Total production cost ÷ total units produced)
Fixed costs	These costs do not change even if the quantities produced by the factory increase or decrease (e.g. rent)
Variable costs	These costs increase when the factory produce more products and decrease when the factory produce less products (e.g. electricity)
Unit costs	This is the cost to produce one unit
Contribution per unit	The difference between the selling price per unit and the variable cost per unit. (SP/unit – VC/unit) It is used to work out the break-even point.
Mark-up	The profit made on the goods produced
Selling price	The price that products are sold for

Break-even point	It is the number of units that need to be sold to cover all costs, but no profit is made. It is where total receipts are **equal** to total costs. It is the point where there is **no** profit and **no** loss. The break-even point can be calculated in units as well as rand value
Work-in-process stock	Work-in-process is the same as incomplete products. It is the cost of the work not yet finished at the end of the year and not ready to be sold. It will be finished in the next financial period.
Finished goods (Completed products)	Completed goods are units that are 100% complete. These units are ready to be sold.
Selling and distribution cost	These are costs which are incurred in the selling of the finished goods (e.g. advertising, sales commission). These are variable costs.
Administration cost	This is the cost of running the office where the administration and accounting is done.

THINGS TO REMEMBER

Basic Concepts

All types of organisations incur costs, the type of costs incurred depends on the type of the business, e.g. a business that manufactures goods will engage in an activity that involves the transformation of raw material into a form which is more suitable for human consumption.

MANUFACTURING LEDGER ACCOUNTS.

- Discuss all the terminology regarding manufacturing ledger accounts
- Emphasise the fact that the accounts are divided into stock accounts (Balance **sheet accounts**); costs accounts (nominal accounts) and Nominal accounts **that will be closed off to the costs accounts.**

RAW MATERIAL: DIRECT (refer to the notes attached and grade 11 textbook)

- Explain the flow chart of the route that **material** takes in the production process.
- Emphasis should be on the analysis of **ledger accounts**, i.e. Account to be **debited** and Account to be **credited.**
- Learners should participate in the discussion, Avoid questions such as "**debit or credit**" learners normally guess. The learner should always give an explanation for his/her answer.

INDIRECT MATERIAL: (Nominal)

- Indirect Material – Nominal Account
- Manufacturing Overheads – Cost Account

LABOUR

Explain the following through the aid of the flow chart above

- Salaries and wages are paid to different employees for different reasons, not all wages and salaries have anything to do with the production process.

Division of ledger accounts

Take sufficient time to explain the following: (**see the attached notes**)

The flow of the manufacturing ledger accounts

- Balance sheet section accounts
- Nominal account section
- Cost account section
- Final accounts

Calculations of Manufacturing costs.

Refer to the **notes attached** to understand the following:

- Prime costs **(Direct costs)**
- Manufacturing overheads (**Indirect Costs**)
- Total manufacturing costs
- Unit cost
- Calculation of manufacturing costs by means of fixed and variable costs
- Break – even point

Internal Control and Ethics

Refer to the notes attached to do the following:

- Take sufficient time to learn the internal control specific to raw material
- Internal control specific to labour
- Ethical issues involved

Aspects of internal control and business ethics concepts

- Adequate record keeping
- Separation of duties
- Regular and Independent stocktaking
- Procurement policy

Formats of Production Cost Statement.

Know the Format and the Notes to the Production Cost Statement

Refer to the notes attached to understand the following:

- Format of the Production Cost Statement.
- Format of the notes attached to the Production Cost Statement
- What is the Production Cost Statement?
- Practice formats continuously (**use a single column format**)
- Do your work without fail

Completion of the Production Cost, Income Statements and the Notes

Income Statement (**short form**)

Cost Calculations: Formula

- Gross Profit on finished goods sold
- Variable and Fixed costs
- Cost per unit

- Contribution per unit
- Break-even point
- Total cost of production

Cost interpretation

Analysis, interpretation and reporting of Financial Statements Results

- In the same way as we do analysis of Income Statement and Balance Sheet, we need to do analysis of the Production Cost Statement.
- This analysis is largely taking **each** item and calculating **its unit cost**
- Cost calculations provide a hands-on practical way of determining enterprise unit cost and total costs
- Comparison should be made with similar industries and with previous years' calculations.
- Many industries collapse because management and staff cannot cost correctly and therefore under-quote.

ACTIVITIES

ACTIVITY: F1 COST CONCEPTS

Match the different costs in column A with the definition in column B. You are only required to write down the letters 1.G, 2. J

COLUMN A		COLUMN B
COSTS CONCEPTS		**DEFINITION**
1.1 Direct material	A	Labour used in the factory but not involved in the manufacture of the goods
1.2 Indirect material	B	Other expenses incurred by the factory other than direct costs.
1.3 Direct labour	C	Cost of one item produced
1.4 Indirect labour	D	Costs that vary in proportion to the amount of goods produced.
1.5 Prime cost	E	The price that the items are sold for.
1.6 Factory overheads	F	Materials that are used in the manufacturing process but do not form part of the product.
1.7 Fixed costs	G	The profit made on the goods produced
1.8 Variable costs	H	Total direct costs
1.9 Total cost of production	I	Includes all costs involved in the production
1.10 Unit cost	J	Material that forms part of the item produced
1.11 Mark-up	K	Costs that remain constant irrespective of the amount produced
1.12 Selling price	L	Labour directly involved in the manufacture of goods

ACTIVITY F2 (PRODUCTION COSTS)				
		Production Costs		
	Cost item	Direct costs	Indirect costs	Not part of production costs
2.1	Rent of factory			
2.2	Wages of cleaners			
2.3	Wages of employees using tools working on the product.			
2.4	Insurance of the equipment in the factory plant.			
2.5	Maintenance of the factory buildings.			
2.6	Cost of raw materials included in the finished products.			
2.7	Administrative costs.			
2.8	Marketing costs			

ACTIVITY F3

REQUIRED

Use the information below to calculate the following:

3.1 Direct material costs
3.2 Direct labour costs
3.3 Prime costs
3.4 Manufacturing overheads
3.5 Total manufacturing costs
3.6 Unit cost per canoe
3.7 The selling price of a canoe if a profit margin of 70% is applied to the cost price.

INFORMATION

In June 2014 Zonke Racing enterprise manufactured 30 canoes. Costs which the business incurred during the month are listed below:

Glass fibre	**18 870**
Resin	6 000
Cabling	530
Pedals	600
Stickers	1 500
Wages for workers building the canoes	16 000
Costs of moulds for canoes	5 000
Rent for the factory	2 000
Electricity consumption of the factory	500
Salary of the supervisor	4 500
Other general manufacturing overheads, such as maintenance, insurance	11 400

ACTIVITY F4

4.1 **JJ SOAP MANUFACTURERS**

The business produces and sells one type of hygiene soap.

REQUIRED:

4.1.1 Prepare the Production Cost Statement on 28 February 2019.

4.1.2 Calculate the Net Profit on 28 February 2019.

INFORMATION:

A. Stock on hand:

	28 February 2019 R	**1 March 2018 R**
Work-in-progress	84 600	37 600
Finished goods stock	315 000	127 000

B. The following was extracted from the financial records of JJ Soap Manufacturers on 28 February 2019, the end of the financial year.

	R
Administration cost	810 000
Direct material cost	1 770 000
Factory overhead cost	327 000
Selling and distribution cost	603 000
Direct labour cost	?
Sales	6 390 000
Cost of sales	3 337 000

C. ADDITIONAL INFORMATION

- Factory cleaning materials costing R10 000 was erroneously included in the direct material costs. Correct the error.

ANSWERSHEET

4.1.1

Production Cost Statement on 28 February 2019	
Direct Materials Cost	
Direct Labour Cost	
Prime Cost	
Work-in Progress at the beginning of the year	
Work-in Progress at the end of the year	
Cost of Production of Finished Good	

4.1.2

Calculate the Net profit

ACTIVITY F5

5.1 MSELENI MANUFACTURERS

You are provided with information relating to Mseleni Manufacturers for the year ended 29 February 2020. The business produces one type of air conditioner.

REQUIRED:

5.1.1 Calculate the Direct Material Cost

5.1.2 Calculate the Factory Overhead Cost

5.1.3 Prepare the Production Cost Statement for the year ended 29 February2020.

INFORMATION:

A. The following balances appeared among others in the books of the business:

	29 February 2020	1 March 2019
Raw material stock	R86 000	R180 000
Work-in-process stock	?	R150 000
Finished good stock	R170 000	R500 000
Indirect material: factory	R18 000	R25 000
Administration cost	R13 000	-

B. Summary of transactions:

Raw material purchased	R400 000
Raw materials returned to suppliers	R7 000
Carriage on raw materials paid	R5 000
Total salaries and wages paid	R350 000
Water and electricity paid	R98 000
Factory indirect materials purchased	R35 000
Factory sundry expenses paid	R49 800
Rent expenses paid	R56 500

C. The salaries and wages amount is distributed as following:

- 50% to employees who work directly on the production process
- 20% to indirect labour
- 15% to administrative staff
- 15% to sales and distribution staff

The employer contributes 8% to the pension fund and 1% to the UIF on behalf of each employee.

D. Water and electricity

- The water and electricity bill is shared among the factory, administration and sales section in the ratio 4:3:1.

E. Indirect materials:

- Indirect materials costing R9 000 were transferred from the factory to the administration office.

F. Rent expenses

- Rent amount for February 2020, R 5 500 will only be paid in March 2020.
- Rent is allocated according to floor area as follows:
  Factory 1 200m², administration 100m² and selling and distribution 300m²

G Factory depreciation amounted to R32 000

H. Cost of sales was correctly calculated at R1 200 000.

ANSWERSHEET

5.1.1

Calculate the Direct Material Cost	

7

5.1.2

Calculate the Factory Overhead Cost	
Depreciation	32 000
Sundry expenses (85 600 – 2 600) x 60/100	49 800

16

5.1.3

Production cost statement for the year ended 29 February 2020.	

13

ACTIVITY F6

6.1 KETTLE MANUFACTURERS

The business produced and sold 4 100 kettles for the year ended 28 February 2019. The following information was extracted from their books:

REQUIRED:

6.1.1 Calculate the break-even point for the year ended 28 February 2019.

6.1.2 Should the business be satisfied with the number of units that are currently produced? Explain.

6.1.3 Despite the fact that there was an increase in the price of direct material, the direct material cost per unit decreased from R32 to R27. Give a valid reason for the decrease.

6.1.4 Despite the fact that there was no increase in wages during the year, the direct labour cost per unit increased from R20 to R28. Give a valid reason for the increase.

INFORMATION:

	R
Sales	615 000
Direct material cost	110 700
Factory over heads cost	246 000
Selling and distribution cost	61 500
Direct labour cost	114 800
Administration cost	102 500

Additional information

- Selling price per unit amounts to R150.

ACTIVITY F7

7.1 MAMMA'S BAKERY

The following information was extracted from the books of Mamma's Bakery for the year ended on 29 February 2020. The bakery is owned by Alwande Mbatha.

REQUIRED:

7.1.1 Calculate the Break-even point for 2020.

7.1.2 Explain why the owner should be concerned about the break-even point. Provide **TWO** points.

7.1.3 Provide **ONE** reason for the decrease in the Direct Material Cost.

INFORMATION:

Fixed and variable cost	2020		2019
	Total	Per unit	Per unit
Variable costs: Direct Materials	R91 500	R7.50	R8.00
Direct Labour	R73 200	R6.00	R5.70
Selling & Distribution	R42 700	R3.50	R3.40
	R207 400	R17.00	R17.10
Fixed costs : Factory overheads	R63 440	R5.20	R4.70
: Administration	R34 160	R2.80	R2.50
	R97 600	R8.00	R7.20
Break-even point		?	7 795
Units produced		12 200	11 800
Selling price (per unit)		R25	R25

ACTIVITY F8 (INFORMAL CLASS TEST)

8.1 GEVEN MANUFACTURERS

The business produces wooden tables.

REQUIRED:

Prepare the following for the year ended 28 February 2017:

8.1.1 Production Cost Statement (14)

8.1.2 Abridged Income Statement (14)

INFORMATION:

A. Stock on hand:

	28 FEBRUARY 2017	**1 MARCH 2016**
Work-in-process	?	R160 000
Finished goods	400 tables, valued using FIFO method	1 200 tables at R280 = R336 000

B. Production and sales for the year:

- 7 200 tables were produced at a unit cost of R330 each.
- 8 000 tables were sold for R4 080 000.

C. Costs (before adjustments):

Administration	R148 400
Factory overheads	R487 200
Direct materials	R1 050 000
Direct labour	**?**
Selling and distribution	R422 000

Adjustments:

- Payment to EZ Transport, R102 000, was incorrectly allocated to Selling and Distribution. This was actually meant for delivering wood to the factory.
- The cleaning contract for the year, R126 000, was shared between Factory and Administration in the ratio 2 : 1. However, 80% should have been allocated to Factory.

D. Prime cost: R1 800 000 (after adjustments)

8.2 ZAMAZAMA MANUFACTURERS

Zamazama Manufacturers is owned by Zama Zondo. They produce shoes and shirts for gym training. Zama requires assistance in interpreting his 2017 results. Note that one pair of shoes comprises one unit.

REQUIRED:

8.2.1 Shirts: Calculate the break-even point for shirts. (4)

- Zama is not satisfied with the variable costs per unit, even though the total variable costs per unit decreased by R6.
  - Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem. (4)
  - Explain why Jan might be concerned about the large decreases in the other TWO variable costs. (4)
- Zama does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures). (4)

8.2.2 Shoes:

- Calculate the % increase in the selling price of shoes. (3)
- Jan decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures. (4)
- Jan was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points. (4)

INFORMATION:

	SHIRTS 2017	SHIRTS 2016	SHOES 2017	SHOES 2016
Break-even point	?	11 522	3 842	4 317
Units produced and sold	16 100	25 000	7 750	6 500
Net profit	R500 400	R620 000	R2 379 750	R1 183 000
Selling price per unit	R302	R290	R1 640	R1 260
Selling price of competitors	R310	R290	R1 100	R1 250
Total fixed costs (factory overhead and administration)	R530 000	R530 000	R2 340 000	R2 340 000
Total fixed cost per unit	?	?	R302	R360
Total variable costs per unit	R238	R244	R1 031	R718
Direct material costs per unit	R92	R116	R456	R330
Direct labour costs per unit	R131	R100	R381	R360
Selling and distribution costs per unit	R15	R28	R194	R28
Unit cost of production	R242	R228	R1 100	R1 004

8.1 GEVEN MANUFACTURERS

8.1.1

PRODUCTION COST STATEMENT
FOR THE YEAR ENDED 28 FEBRUARY 2017

Direct material cost	
Direct labour cost	
Prime cost	
Factory overhead cost	
Total cost of production	

14

8.1.2

ABRIDGED INCOME STATEMENT
FOR YEAR ENDED 28 FEBRUARY 2017

Sales	
Cost of sales	
Gross profit	
Administration cost	
Selling and distribution cost	
Net profit	

14

8.2 ZAMAZAMA MANUFACTURERS

8.2.1 Shirts:

Calculate the break-even point for shirts.

4

Identify ONE variable cost (with figures) that has not been well controlled. Give TWO possible reasons for this problem.

ONE VARIABLE COST WITH FIGURES	REASONS
	Reason 1: Reason 2:

4

Explain why Zama might be concerned about the large decreases in the other TWO variable costs.

4

Zama does not understand why the unit cost of production has increased when neither his fixed costs nor the variable costs have increased. Explain why this is so. State ONE point (with figures).

4

8.2.2 Shoes:

Calculate the % increase in the selling price of shoes.

Zama decided to improve the quality of the shoes and to export them. Explain how the direct material costs and the selling and distribution costs were affected by this decision. Provide figures.	4
Zama was concerned that the increase in price would have a negative impact on the business. Explain whether his concern was justified. State TWO points. Point 1: Point 2:	4

G. VALUE ADDED TAX

WHAT IS VALUE ADDED TAX (VAT)

Value added tax (VAT) is a tax charged on the supply of goods and services by a vendor. Vendors registered for VAT collect VAT from customers on behalf of the South African Revenue Services (SARS).

NEED AND PURPOSE FOR VAT

- The government is responsible for paying the following services:
  - Protection of citizens
  - Social welfare
  - Infrastructure
- Taxes must be paid to the government so that they have an income to pay for these services. Taxes include:
  - Income tax, VAT, customs & excise duties

WHO CAN REGISTER AS A VAT VENDOR

Two types of registration

- **Compulsory registration**
  - Must have a turnover of more than R1 000 000 p.a.
- **Voluntary registration**
  - Must have a turnover of more than R50 000 and less than R1 000 000 p.a.
- If the turnover is less than R50 000 p.a., a business may **not** register for VAT

VAT RATE: STANDARD RATE OF 15%

- **Standard rate of 15%**

VAT is now calculated at a standard rate of 15%

The Minister of Finance can change this rate at any time.

VAT INPUT AND VAT OUTPUT

VAT INPUT- It is calculated on all purchases and payments made by the business/VAT Vendor. The business can claim it from SARS.

VAT OUTPUT- It is calculated on all sales of the business. It is payable to SARS.

ZERO RATED ITEMS (0%)

- Some goods are charged at a zero rate (0%) - no VAT is charged on them. This rate can also be changed by the Minister of Finance if the need arises.

Nature of the zero –rated goods. These goods are zero-rated so that poor people can afford these necessary items

- Brown bread
- Maize products
- Rice
- Lentils
- Dried beans
- Legumes
- Fresh and frozen fruit
- Cooking oil
- Eggs
- Canned pilchards
- Paraffin
- Milk, Milk powders and blends
- Fresh and frozen vegetables
- Petrol and diesel fuel (Subject to fuel levies included in the pump price.)

VAT EXEMPTED ITEMS

VAT exempt items

By law the following are NOT subjected to VAT

- Financial services, e.g. interest, life assurance, medical schemes, provident funds and pension funds
- Export services
- Childcare services
- Educational services, e.g. schools, universities, etc.
- Donated goods and services sold by non-profit bodies (e.g. church bazaars)
- Passenger transport in South Africa by bus, taxi or train
- Salaries & wages

ETHICS
There should be transparency – VAT records to be made available to interested parties
Unethical behaviour
The business understates its sales (shows a lower amount) on the VAT form so that it will not pay so much to SARS
Illegal behaviour
Tax evasion is illegal
Claiming an amount for VAT when you are not entitled to it.
Failure to pay over VAT is an offence
Charging VAT on exempt items is fraudulent
INTERNAL CONTROL
The amount on the VAT return should be checked against the General Ledger accounts to check if it was correctly transferred
All amounts on the VAT return should be re-calculated to ensure it is correct.
All payments to SARS must be done through electronic bank transfers or by cheque. an independent person must compare the VAT return with the request payment before a cheque is issued.
Two persons should sign the cheque.
Set up VAT input tax and VAT output units. These units must be accountable to the business's accountant
Ensure that the auditing firm that handles the business's books is well accredited and free from corruption
Ensure that VAT due to SARS is paid on due dates and check tax returns
Internal auditor / owner should conduct spot checks on the calculation of VAT input and VAT output to prevent fraud

ACTIVITY G1

1.1 Basic concepts including internal controls

Answer the following questions:

1.1.1 What is the current VAT rate in South Africa?

1.1.2 Is VAT paid on all items? Explain and provide examples.

1.1.3 What is the difference between VAT input and VAT output?

1.1.4 The average turnover of Thabo Traders is R240 000 per annum.
The business is not registered for VAT.
(a) Explain if it is compulsory for the business to register as a VAT vendor
(b) Explain if the business would benefit if it registered as a VAT vendor
(c) Provide one disadvantage of being a VAT vendor

1.1.5 Explain tax evasion and the consequences thereof.

1.2 VAT Calculations

The table below indicates amounts for various sale transactions, which are subject to Vat at 15%.
Complete the table.

No.	Cost price	% Mark-Up	VAT Exclusive Price	VAT Amount	VAT Inclusive Price
e.g.	R200	50%	R300	R45	R345
1	**A**	25%	**B**	R150	**C**
2	R400	**D**	R640	**E**	**F**
3	R900	**G**	R1200	**H**	**I**
4	**J**	20%	**K**	**L**	R2760
5	**M**	25%	**N**	R105	**O**
6	R1000	**P**	**Q**	**R**	R1610

ACTIVITY G2

Mr Nene is the sole owner of Nene Supermarkets. The following information was extracted from the accounting records for the month of June-July 2020.

Summary of transactions:

Total Sales (Exclusive VAT) for 2 months	**56 100**
Sales @ standard rate	42 600
Sales @ 0% VAT	13 500
Total Purchases for 2 months (Inclusive VAT)	**33 850**
Purchases @ standard rate	28 750
Payments that were VAT exempted	5 100
Goods taken for personal use VAT Inclusive	483
Returns by customers VAT Exclusive	4 800
Returns to suppliers VAT Exclusive	1 000
Discount allowed to customers Including VAT	575
Bad debts written off Including VAT	460

ANSWERSHEET

ACTIVITY G2

GENERAL LEDGER OF NENE SUPERMARKET

OUTPUT VAT ACCOUNT

INPUT VAT ACCOUNT

VAT CONTROL ACCOUNT

ACTIVITY G3

3.1 **VAT CONCEPTS**

Change the underlined parts in the following sentences to make the statements TRUE. Write the answer next to the question number (3.1.1–3.1.3) in the ANSWER BOOK.

3.1.1 Input VAT is VAT charged to customers. (1)

3.1.2 VAT is payable to the South African Reserve Bank. (1)

3.1.3 VAT is charged at 15% on fruits and vegetables. (1)

3.2 **VAT CALCULATIONS**

Wandile Traders is a VAT registered business. The standard rate of VAT is 15%.

REQUIRED:

Calculate the correct amount of VAT the business has to pay. Show ALL workings. (12)

INFORMATION:

The bookkeeper, Felix, prepared the VAT Control Account for the tax period ended 31 May 2020 and arrived at a VAT payable amount of **R43 820**.

However, the internal auditor has identified the following errors and omissions which must still be brought into account to calculate the correct VAT payable amount:

A.	Sales invoices omitted from the Debtors' Journal, including VAT	R10 235
B.	Damaged goods returned to suppliers, excluding VAT	18 800
C.	VAT on sundry business expenses omitted	6 818
D.	VAT on discounts received from suppliers	756
E.	VAT on bad debts recovered	112
F.	VAT on bad debts was recorded on the wrong side of the VAT Control Account	92

ACTIVITY G4

4. **VALUE ADDED TAX (VAT)**

The information below relates to Zum Stores for their two-month VAT period ended 31 May 2020. All items are subject to 15% VAT. The owner of the business is Ray Zondi.

REQUIRED:

4.1.1 Calculate the amount of VAT payable to/receivable from SARS on 31 May 2020. Indicate whether the amount is payable or receivable. (9)

4.1.2 As the internal auditor, you noticed that Ray Zondi has not been submitting the VAT due to SARS on the regular due date.
On enquiry, Ray Zondi stated that the business was experiencing a cash flow problem and he used the money to pay for business expenses. What comment would you offer Ray Zondi concerning this practice? State TWO points. (4)

INFORMATION:

Transactions in respect of the VAT-period ended 31 May 2020:

A	Amount owed to SARS on 1 May 2020	R 74 800
B	Purchases and payments (VAT exclusive)	R880 000
C	Cash and credit sales (VAT inclusive)	R1 069 776
D	VAT on discount allowed to debtors	R 4 560

ACTIVITY G5

5.1 VALUE-ADDED TAX (VAT)

The information below relates to Sun Traders for their two-month VAT period ended on 31 March 2019. All items are subject to 15% VAT.

REQUIRED

Calculate the amount receivable from or payable to SARS for VAT on 31 March 2019. Indicate whether the amount is receivable or payable. (You may complete a VAT Control Account.) (10)

INFORMATION:

A. Amount owed to SARS for February 2019, R21 375

B. Details in respect of VAT for March 2019

DETAILS	EXCLUDING VAT	VAT	INCLUDING VAT
Merchandise purchased/Expenses paid			R341 550
Goods taken by owner for personal use	R31 500		
Debtors' accounts written off		R2 130	
Total sales	R480 000		R552 000
Returns by debtors		R1 800	

H. BUDGETING

THINGS TO REMEMBER

Projected Income Statement

- The main aim of the business is to make a **Profit.** Regular and thorough planning is essential. Budgeting is an integral part of this process. Budgeting is forecasting for the future. The current budget is used to plan for the future.
- Likewise, the enterprise has to prepare a **Projected Income Statement** for the future from the current income statement
- The key here is for learners to remember that we are trying to determine the future **profits,** and thus the Projected income Statement will include
- All income that is expected to be earned during the budget period, **whether received or not**
- All expenses that are expected to be incurred during the budget period**, whether paid or not.**

What is the main aim of the Projected Income Statement?

Projected income Statement is an essential tool used to monitor and plan the profitability of the business enterprise.

By analysing it; management can ascertain whether:

- The business will be profitable over the budget period
- The projected figures are satisfactory
- Expenses need to be cut.
- The business can afford to hire additional staff, run an advertising campaign and so on.

If it predicts a loss in a specific month, the management can make suitable arrangements to try to prevent this from materialising.

Format of the Projected Income Statement

The Projected income Statement has the same format as the "normal Income Statement, **except,** that here the figures are based on **future projections** and **not past results,** also often several columns are required since the budget period may span **over s**everal months or even years.

How to Prepare the monthly Projected Income Statement

1. Take as a starting point the actual Income Statement of the past year.
2. Divide the figures by 12 to calculate the monthly figures
3. The following factors, amongst others, should be taken into account:
   - Increase in expenses due to inflation, e.g. wages, fuel increases
   - Increase demand in particular months (season) due to events such as religious holidays, sports events, and international events etc.
   - Expected decline in sales due to increased competition.
   - Expected gross profit, i.e. mark-up on cost

What is the Cash Budget

- It is a financial plan indicating projected receipts and payments to ensure that there is sufficient cash to meet future payments.

- A cash budget deals only with cash transactions, namely the receipt and payment of cash. Transactions that are not cash related will not be considered in the preparation of cash budget. These transactions include: Depreciation, Stock taken by the owner for personal use, Discount allowed and received, Bad debts, Profit/ loss on sale of fixed assets.

  Introduce the structure of the Cash Budgeting
- Differentiate between the Receipts and Payments
- Know how to calculate sales using ratios as well as percentage. Cash Sales are recorded under Receipts in the cash budget and Credit sales are always recorded in the Debtors collection schedule.
- Know how to calculate cash Surplus and Cash Deficit
- Learn that the closing balance of the current month will be the opening balance of the following month.
- Practice the Arithmetic calculations.
- Analyse of Cash Budget

Preparation of the Debtors Collection Schedule

- Credit sales (Actual and Budgeted) will be analysed in the collection procedure and all information in this respect is processed into a Debtors Collection Schedule.
- Debtors collection schedule consist of credit sales and budget period.
- Calculation of cash sales and credit sales from total sales using the given % or ratio.
- Application of the Debtors Collection Policy on credit sales and to take note of Discounts.
- The totals of the Debtors collection Schedule must be transferred to the Cash Budget under Receipts as Collection from Debtors.

Preparation of the Creditors payments Schedule

- Know that in order to improve cash flow, the business may purchase stock on credit. On fulfilling all business credit application requirements, the business can negotiate relevant payment terms with its creditors. Such terms will be followed in making payments to creditors during budget period. This information may be presented in the form of Creditors Payment Schedule.
- Calculation of credit and cash purchases from total purchases using % or ratio
- Cash purchases are recorded in the cash budget and credit purchases in the creditor's payment schedule.
- If total purchases are not given they must we cost of sales and if cost of sales is not given, they must calculate cost of sales using the mark-up %.

IMPORTATNT CALCULATIONS

- Mark up % = gross profit / cost of sales x100
- Surplus / deficit = Receipts – Payments
- Closing balance = Opening balance +/- Surplus/ deficit
- % change= difference / original amount x 100
- Increased amount by % = $\frac{\text{Original amount x 100+ \% increase}}{100}$

- Decreased amount by %= = $\frac{\text{Original amount x 100- \% decrease}}{100}$
- Amount before increase= $\frac{\text{Increased amount x100}}{\text{100 + \% increase}}$
- Loan or Fixed deposit = $\frac{\text{Interest on loan / fixed deposit x 100 x 12}}{\%}$
- Interest rate on loan / fixed deposit= $\frac{\text{interest amount x 12 x 100}}{\text{Loan / Fixed deposit}}$

Compare actual figures to budgeted figures to ensure that the budget figures are realistic and also comment on the control of income and expenses.

Ways to improve debtors collections

- Remind them by sending statements/ phone calls/sms/email
- Offer discounts on early payments
- Charge interest on late payments
- Refuse to sell on credit to debtors who are not compliant

Advantages of buying the business premises rather than renting

- Will not have to pay rent in future
- Business will acquire a fixed asset, which increases the value of a business
- Extra space will be rented out to receive additional income

- Disadvantages of buying than renting
  - Rates on building must be paid
  - Additional maintenance cost will be incurred
  - Not easy to relocate
  - Costs and time involved in selling the property
- **Ways to Improve cash balances in future**
  - Encourage debtors to pay faster
  - Negotiate with creditors for longer payment terms
  - Raise more capital / issue more shares
  - Move to cheaper premises
  - Charge clients for deliveries
  - Take out a loan (to reduce overdraft and interest)
  - Decrease mark up to improve sales
  - Look for alternative income e.g. commission

ACTIVITY H1

REQUIRED:

1.1 Explain the difference between a Projected Income Statement and a Cash Budget.

1.2 Complete the following for September to November 2020. (Some amounts have been entered for you.):

1.2.1 Debtors Collection Schedule.

1.2.2 Projected Income Statement

INFORMATION

Green Tree Stores Income Statement for the year ended 31 August 2020

Sales	1 600 000
Cost of Sales	(1 000 000)
Gross Profit	600 000
Other Operating Income	73 600
Rent Income	56 800
Commission Income	16 800
Gross Operating Income	673 600
Operating Expenses	(456 500)
Salaries	240 000
Advertising	30 000
Bad Debts	20 000
Depreciation	48 600
Sundry Expenses	117 900
Operating Profit	217 100
Interest Expense (on Loan)	(19 200)
Net Profit for the year	197 900

ADDITIONAL INFORMATION

1. Sales (including forecasted sales) for the period 1 July 2019 to 30 November 2020 are shown below:

	Total Sales	Cash Sales	Credit Sales
July 2020	119 000	35 700	83 300
August 2020	127 000	38 100	88 900
September 2020	132 000	39 600	92 400
October 2020	136 000	40 800	95 200
November 2020	140 000	42 000	98 000

2. Credit Sales are expected to be collected as follows:
   - 20% in transaction month to receive a 5% discount.
   - 70% in the month after the transaction.
   - 5% two months after the transaction.
   - 5% irrecoverable and is written off two months after the transaction.
3. The current percentage mark up on cost will be maintained throughout the budget period.
4. - An increase in salaries becomes effective on 1 September each year. An increase of 8% has been budget for on 1 September 2020.
   - The business currently has 3 employees earning the same monthly salary. From 1 November 2020, a fourth employee, who will earn the same salary, will be employed.
5. The monthly rental was increased by R800 on 1 October 2020. The business intends to increase the tenants rent by R1 000 from 1 October 2020.
6. Green Tree Stores currently pays interest in their loan at a rate of 8% per annum. The capital portion of the loan remained unchanged during the previous financial year. The business plans to increase this loan by R60 000 on 1 November 2020.
7. The business plans for dispose of unused equipment at a book value by the end of September 2020. This will decrease the depreciation on equipment by R200 per month from 1 October 2020. (Note that no assets were bought or sold during the financial year ended 31 August 2020. Assets are depreciated on cost)
8. Sundry expenses are estimated at R10 000 in September and thereafter to increase by 2% per month.

ANSWER SHEET

ACTIVITY H1

1.1 **Explain the difference between a Projected Income Statement and a Cash Budget.**

1.2.1 **Debtors Collection Schedule**

	Credit Sales	Sept	October	November
July 2020	R 83 300	4 165		
August 2020	R 88 900	62 230	4 445	
September 2020	R 92 400			
October 2020	R 95 200			
November 2020	R 98 000			

1.2.2 Projected Income Statement

	Sept	October	November
Sales	**132 000**	**136 000**	**140 000**
Cost of Sales			
Gross Profit			
Other Operating Income			
Commission Income	**1 400**	**1 400**	**1 400**
Advertising	**2 500**	**2 500**	**2 500**
Net Profit for the month			

ACTIVITY H2

You are provided an **Incomplete** Projected Income Statement and Cash Budget for three months ending November 2020 of Made in P Z M Designers which sells smart casual clothing to teenagers

REQUIRED:

Use the given information to complete A -

2.1 Complete the Debtors Collection Schedule **(A and B)** for the month of **November 2020**, in your answer book. The credit sales amounts are provided on the answer sheet.

2.2 Complete the Projected Income Statement **(C – G)** in the answer sheet provided. Show all calculations to earn part marks.

2.3 Complete the Budget **(H – Q)** in the answer sheet provided. Show all calculations to earn part marks.

2.4 Over the past few months the economic recession has had a serious impact on the clothing industry in South Africa. Discuss 2 ways, (other than increasing the loan), which indicates that the owner has taken the recession into account in the drawing up of this Cash Budget. Support your answers by quoting relevant figures.

ADDITIONAL INFORMATION

1. **SALES**:
All goods sold are marked up by 60% on cost. The credit sales figures have been inserted on the Debtors Collection Schedule provided in the answer book.

2. **PURCHASES:**
PZM Designers work on a fixed stock base i.e. stock sold each month is replenished in the same month. 40% of all purchases are for cash. No discounts are expected to be granted by creditors over the next 3 months.

3. **DEBTORS COLLECTION PERIOD**:
A survey reveals that debtors are expected to pay their accounts as follows:
15% Within the same month as the sale subject to the 2% discount
26% In the month following the sale.
50% In the second month following the sale.
9% Are written off as bad debts at the end of the second month following the sale.

4. **RENT INCOME:**
Rent is expected to increase by 12% in November 2020.

5. **LOAN FROM FUNBANK**:
The loan from Funbank is expected to increase on the 1 October 2020. Interest is charged at 18% p.a. and the interest on the new loan will be paid monthly starting from the 1 November 2020.

6 **SALARIES AND WAGES**
The salaries and wages will increase by 20% in October 2020 and then decrease by 33⅓% in November 2020.

7 **SUNDRY EXPENSES**
Sundry expenses remain the same throughout the year.

5.1 **DEBTORS COLLECTION SCHEDULE**

CREDIT SALES			NOV	
August	**R280 000**		**0**	
September	**R324 000**		**162 000**	
October	**R360 000**		A	
November	**R456 000**		B	
Total			**322 632**	

5.2

MADE IN PZM DESIGNERS
PROJECTED INCOME STATEMENT FOR NOV 2018

	NOV	
Sales	C	
Cost of Sales	D	
GROSS PROFIT	E	
OTHER OPERATING INCOME	8 960	
Rent Income	8 960	
GROSS OPERATING INCOME	293 960	
OPERATING EXPENSES	(164 000)	
Salaries and wages	96 000	
Advertising	25 000	
Sundry expenses	10 000	
Bad debts	F	
Discount allowed	G	
Depreciation	2 100	
Trading stock deficit	372	
OPERATING PROFIT	129 960	
Interest expense	(7 200)	
NET PROFIT	122 760	

2.3

MADE IN PZM DESIGNERS
CASH BUDGET FOR THE 3 MONTHS ENDING 31 NOVEMBER 2018

CASH RECEIPTS	SEPT	OCT	NOV	
Cash sales	216 000	240 000	H	
Cash from debtors	111 628	139 320	I	
Rent Income	8 000	8 000	J	
Loan from Nedbank	0	180 000	0	
Total receipts	335 628	567 320	K	
CASH PAYMENTS				
Cash purchases	108 000	120 000	114 000	
Cash paid to creditors	210 000	252 000	280 000	
Interest on the loan	4 500	4 500	L	
Salaries and wages	120 000	M	96 000	
Advertising	15 000	45 000	25 000	
Sundry expenses	10 000	10 000	N	
Total payments	467 500	575 500	532 200	
Surplus / Deficit	(131 872)	(8 180)	O	
Opening bank balance	24 000	(107 872)	P	
Closing bank balance	(107 872)	(116 052)	Q	

ACTIVITY H3

The following information was drawn from the books of Sabie Traders.

REQUIRED

3.1.1 Provide TWO items that will not be included in a cash budget. Provide a reason for each item.

3.1.2 Explain the difference between a Projected Income statement and a Cash budget.

3.1.3 Use the information given for the budgeted period. Comment on the debtor's collection policy in comparison to the creditor's payment policy.

3.2 **Use the information given to prepare the following**:

3.2.1 The debtors' collection schedule for July 2020 and August 2020.

3.2.2 The cash budget for July 2020 and August 2020.

3.2.3 Comment briefly on advertising, maintenance of tangible assets and rent income appearing on the budget. Provide ONE point of advice regarding each item. **Refer to Information K.**

INFORMATION:

1.	**ACTUAL**		**BUDGETED**	
	MAY	**JUNE**	**JULY**	**AUGUST**
Sales	450 000	600 000	550 000	650 000
Cost of sales	300 000	400 000	360 000	430 000
Wages	55 000	55 000	?	?
Drawings (cash)	10 000	10 000	10 000	10 000
Rent Income	23 000	20 000	35 000	?
Advertising	[redacted]	[redacted]	18 000	16 500
Maintenance(Tangible assets)	R18 500	15 200	20 000	20 000

ADDITIONAL INFORMATION:

A Unfavourable bank balance on 30 June 2020 was R9 500.

B Credit sales are expected to be 50% of total sales.

C Expected receipts from debtors are as follows:

- 60% pay one month after the sale (30 days) and receive a 2% discount.
- 25% pay two months after the sale (60 days).
- 10% pay three months after the sale (90 days).

5% will be regarded as irrecoverable in the fourth month after sale.

D Trading stock sold each month is replenished in the same month. All goods are purchased on credit and creditors are paid in full one month after the date of purchase.

E Rent income increases annually on 1 August 2020 by 10%.

F The annual wages increase of 5% is effective from 1 July 2020.

G An employee earning R17 750 pm will be traveling abroad during July 2017. He will receive his salary during August 2020.

H A fixed deposit of R35 000 is due to mature on 15 August 2020.

I A vehicle was sold on 25 June 2020. However, the cheque received for R65 000 was post-dated for 25 July 2020.

J A new vehicle costing R450 000 will be bought on 1 August 2020. A cash deposit of 20% of the purchase price will be paid on the date of purchase and thereafter 24 equal instalments will be made commencing on 1 September 2020.

K With reference to Question 3.2.3 the following information is provided.

ITEMS	ACTUAL FIGURES	
	JULY	AUGUST
Advertising	18 300	17 200
Maintenance (Tangible assets)	30 000	27 000
Rent Income	23 300	18 500

ANSWER SHEET

3.1.1 Provide TWO items that will not be included in a cash budget. Provide a reason for your answer.

3.1.2 Explain the difference between Projected Income statement and a Cash budget.

3.1.3 Use the information given for the budgeted period. Comment on the debtor's collection policy in comparison to the creditors' payment policy.

3.2.1 DEBTORS COLLECTION SCHEDULE FOR JULY AND AUGUST 2020

Months	Credit sales	July	August
May	225 000		
June	300 000		
July	275 000		
August	325 000		

3.2.2 **CASH BUDGET FOR JULY AND AUGUST 2020**

RECEIPTS	JULY	AUGUST
Cash sales		
Receipt from Debtors		
Rent income	35 000	
Fixed deposit		
Asset disposal income		
Total receipts		
PAYMENTS		
Payment to Creditors		
Salaries		75 500
Wages		
Maintenance (Tangible assets)	20 000	20 000
Advertising	18 000	16 500
Drawings	10 000	10 000
Vehicle		
Total payments		
Cash surplus (shortfall)		
Bank: opening balance	(9 500)	
Bank: closing balance		

3.2.3 Comment briefly on each of the items on the budget. Provide ONE point of advice regarding each ite

Item	Comment	Advice
Advertising		
Maintenance		
Rent income		

ACTIVITY H5

CASH BUDGETS AND INTERNAL CONTROL

You are provided with information regarding Manyana Wired Ltd. The business sells electrical equipment at cost price plus 80%. Stock is replaced on a monthly basis.

REQUIRED:

5.1 The following two statements are incorrect. Rewrite the statements correctly.

5.1.1 A cash budget is a financial statement that shows actual incomes and expenses for a specific period.

5.1.2 A cash budget is prepared in order to calculate profit or loss.

Calculate the following:

5.2.1 Collections from Debtors for September 2020. (Debtors' collection schedule)

5.2 5.2.2 Payments to Creditors for September 2020.

Complete the Cash Budget for the period 1 August 2020 to 30 September 2020.

Study the cash budget and identify TWO major problems. Briefly explain the consequences of each problem you identified and provide solutions to the problems.

INFORMATION:

1.

Amounts taken from the books	Actual		Budgeted	
	June	July	August	September
Sales	121 500	102 600	110 700	97 200
Purchases	67 500	57 000		
Advertising	3 700	3 600		
Salary – manager	14 000	14 000		
Wages – 3 shop assistants	15 000	15 000		

2. 75% of all sales is on credit and 25% is for cash. It is expected that debtors will settle their debts as follows:
   - 60% in the month following the month of sales.
   - 36% in the second month following the month of sales.

   4% will be written off as irrecoverable.
3. All purchases are on credit and will be paid after 30 days so that a discount of 5% can be claimed.
4. Operating expenses amounts to R99 000 annually and are paid in equal monthly instalments.
5. New equipment of R82 000 will be purchased during September 2014. 40% thereof will be paid in cash.
6. Water and electricity amounts to R3 000 per month and it is expected to increase by R300 per month in September.
7. Salaries and wages are revised in August each year. The salary of the manager will increase by 8% on 1 September 2020. Due to the poor economic situation in the country, the owner feels that an increase for the shop assistants cannot be afforded.
8. The owner plans to undertake a tour of Africa during September and will then withdraw R45 000. This amounts to R15 000 more than his usual monthly drawings.
9. The bank account had a favourable balance of R35 200 on 31 July 2020.

ACTIVITY H6

Hayley Westra owns Boxes Etc., a business selling packing material. Her business is experiencing cash flow problems and she asked you to assist in correcting this. Budgeted and actual figures were provided in the cash budget.

REQUIRED

6.1 Explain the importance of comparing the actual figures to the budgeted figures in the cash budget.

6.2 Calculate the values marked (A) – (F).

6.3 Refer to the figures for "Cash received from debtors". Are the debtors adhering to the credit terms of the business? Provide figures to support your answer.

6.4 No new workers were employed during July and August 2020. What could possibly be a reason for the change in each of the actual figures for those two months?

6.5 The owner feels that the business pays less money by renting equipment than purchasing the equipment. Do you agree with her opinion? Provide TWO points to support your answer.

6.6 The business still faces a cash flow problem in August, even though a loan was obtained in July and the receipts from debtors improved. Excluding these two items and the renting of equipment (as in 6.5), identify TWO other items, with figures, that needs attention. Also provide advice how these items can be managed.

6.7 The owner, Hayley, bought the vehicle from the business for her son. The usual driver and the finance officer were unhappy with this. Prove each person's point by explaining ONE reason for each.

INFORMATION

Boxes Etc – Cash budget for July and August 2020

	July		August	
Cash receipts	**Budget**	**Actual**	**Budget**	**Actual**
Cash sales (40% of total sales)	720 000	840 000	360 000	378 000
Receipts from debtors	864 000	624 000	**(A)**	920 000
Rent income	**(F)**	**(F)**	49 680	49 680
Fixed deposit	360 000	360 000	–	–
Sundry income	?	?	?	?
Loan: FNB	300 000	300 000	–	–
Sale of vehicle	189 000	120 000	–	–
TOTAL RECEIPTS	?	?	?	?
Cash payments				
Payments to creditors	960 000	960 000	**(B)**	1 200 000
Wages and salaries	144 000	180 000	144 000	108 000
Fixed deposit (ABSA)	–	–	**(C)**	**(C)**
Drawings	150 000	210 000	150 000	168 000
Repayment of loan	–	–	30 000	30 000
Rent of equipment	507 000	459 000	511 080	?
Interest on loan			?	?
TOTAL PAYMENTS	1 761 000	1 809 000	?	?
Surplus (Deficit)	720 200	483 200	(675 400)	(757 070)
Bank opening balance	(432 000)	(432 000)	**(D)**	51 200
Bank closing balance	288 200	51 200	**(E)**	(705 870)

Additional information:

- Debtors must pay their outstanding debts after 30 days and will receive a 5% discount for prompt payment.
- All stock is bought on credit and a fixed basis of stock is maintained. Creditors' accounts are settled after 30 days.
- A gross profit margin of 60% is used.
- Half of the fixed deposit received in July, was reinvested in August 2020. Interest is receivable every 6 months (at the end of June and December)
- The loan was obtained to help solve the cash flow problem. It is repayable in monthly instalments.
- The monthly rent increased on 1 August 2020 with 15%.
- In the past, when the business wanted to sell a business vehicle, the driver of that vehicle usually had first option to purchase it at carrying value. No deposit was required and the balance would have been deducted in monthly instalments from his salary.